

STATE OF ALASKA
DEPARTMENT OF REVENUE
Tax Division



Fiscal Year 2003
ANNUAL REPORT OF DIVISION OPERATIONS

On the internet at:
www.tax.state.ak.us

Frank Murkowski
Governor

William A. Corbus
Commissioner

2003

This annual report provides an overview of programs administered by the Tax Division and reports revenue collections and other information related to those programs. This report also explains the organizational structure of the division.

The information covers fiscal year 2003 which ended June 30, 2003.

2003 Annual Report of Division Operations

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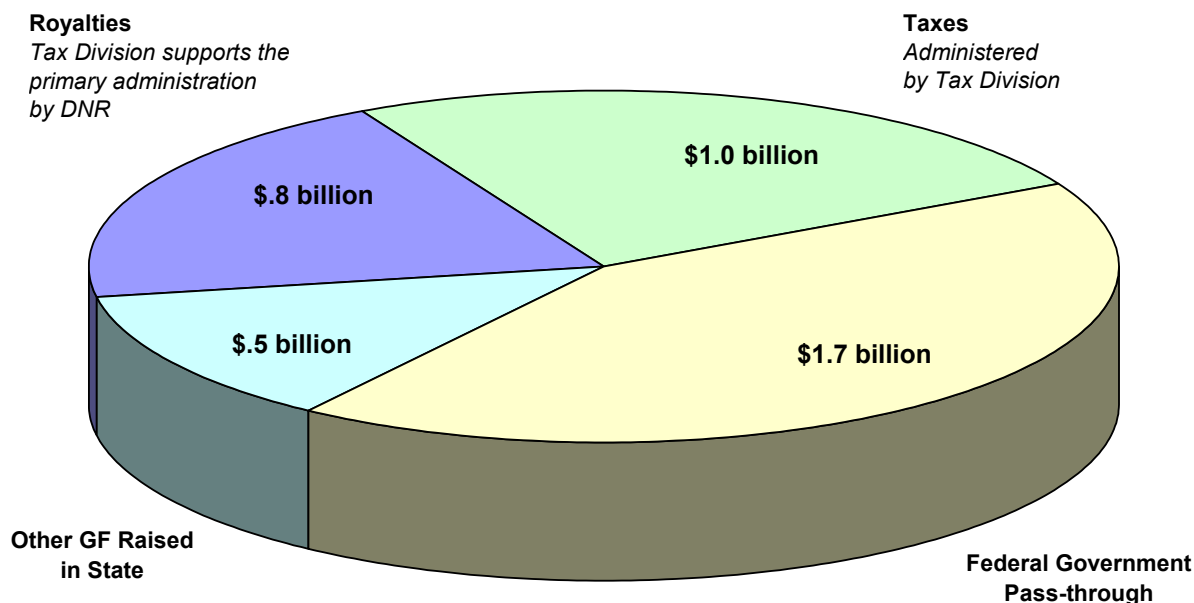
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TAX DIVISION OVERVIEW

The Tax Division continues to have extensive responsibility for administering the tax programs that help pay for a significant portion of state government. During FY 2003 almost half of the General Fund Revenue is a result of collections from tax programs and oil and gas royalties that we directly administer or have shared responsibility for administering. See the chart below for a detail of FY 2003 General Fund revenues of \$4.0 billion dollars. (Source: October 2003 preliminary data from the Alaska State Accounting System.)



Tax programs administered by the Division

Oil and Gas Taxes

- Oil and Gas Corporate Income
- Oil and Gas Production
- Oil and Gas Property
- Oil and Gas Surcharge

Excise Taxes

- Mining License
- Motor Fuel
- Alcoholic Beverage
- Cigarette/Tobacco
- Tire **
- Vehicle Rental **

Other Taxes

- Alaska Regulatory Commission Fees
- Electrical Coop
- Estate
- Telephone Coop

Corporate Income Taxes (Non-Oil and Gas)

- Corporate Income

Fisheries Taxes

- Dive Fisheries
- Fisheries Business
- Fisheries Resource Landing
- Salmon Enhancement
- Salmon Marketing
- Seafood Marketing

Regulatory Programs

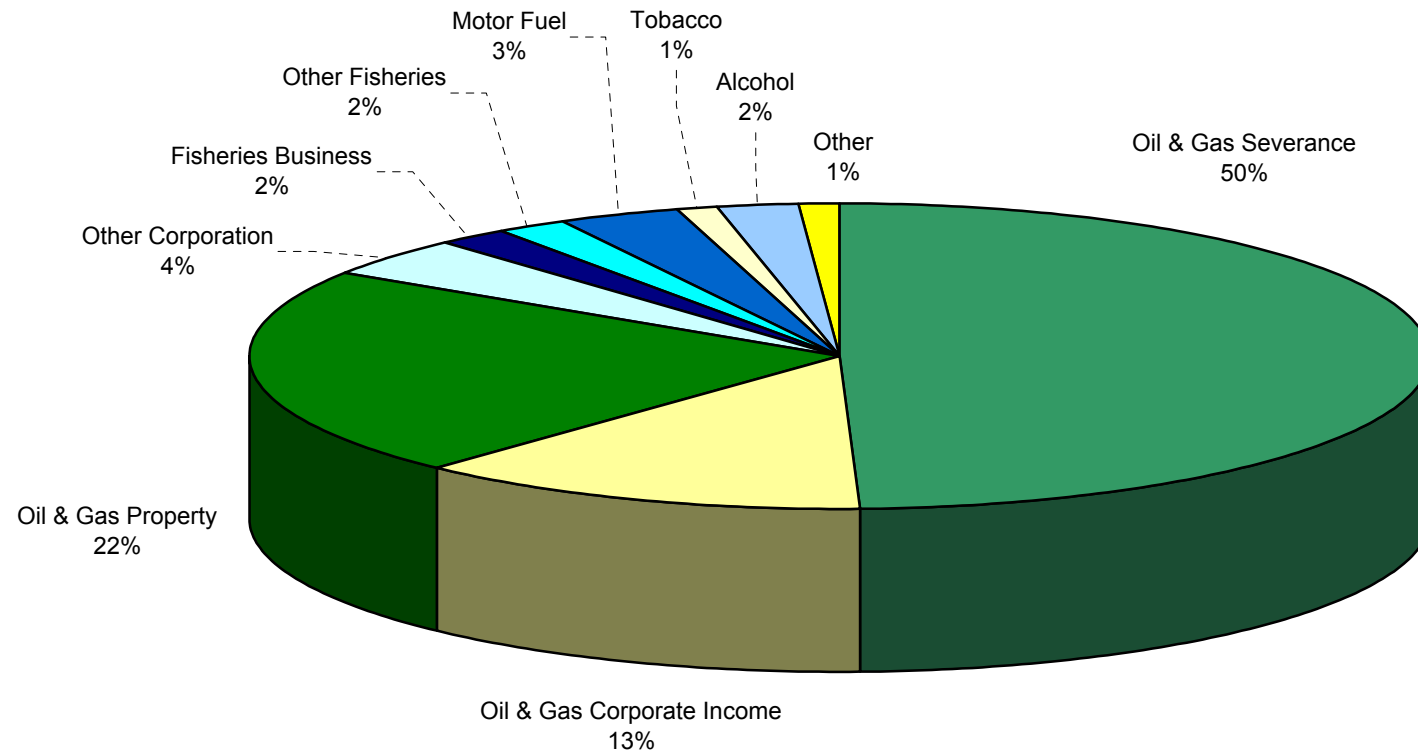
- Charitable Gaming
- Salmon Price Reporting
- Revenue Sources Reporting

** 2003 Legislation - Implementation FY2004

Table 1
Three Year Comparison of Revenue Collections

FUND SOURCE	FY 03	% Fund Total	FY 02	% Fund Total	FY 01	% Fund Total
General Fund (including sub funds)						
Oil and Gas -						
Production Tax	\$589,731,934	49.1%	\$486,740,276	43.3%	\$694,390,581	46.4%
Property ¹	268,844,716	22.4%	270,354,442	24.1%	265,283,557	17.7%
Corporate Income	151,088,300	12.5%	178,386,310	15.9%	338,122,779	22.6%
Conservation Surcharge	9,232,859	0.8%	9,597,043	0.9%	9,432,048	0.6%
Total Oil and Gas	<u>1,018,897,809</u>	<u>84.8%</u>	<u>945,078,071</u>	<u>84.1%</u>	<u>1,307,228,965</u>	<u>87.4%</u>
Corporate Income - Other than Oil and Gas	47,712,454	3.9%	53,449,415	4.8%	59,459,158	4.0%
Motor Fuel	37,352,972	3.1%	40,352,396	3.6%	37,738,514	2.5%
Fisheries Business	26,002,713	2.2%	25,292,371	2.3%	30,494,634	2.0%
Alcoholic Beverages	25,360,808	2.1%	12,889,256	1.1%	12,002,959	0.8%
Tobacco	16,287,785	1.4%	15,534,977	1.4%	16,349,935	1.1%
Fishery Resource Landing	9,876,465	0.8%	7,223,775	0.6%	7,348,739	0.5%
RCA Regulatory Cost Charges	5,839,379	0.5%	5,855,577	0.5%	4,827,912	0.3%
Seafood Marketing	2,989,931	0.2%	2,698,456	0.2%	3,156,843	0.2%
Gaming	2,585,507	0.2%	2,512,205	0.2%	2,380,311	0.2%
Salmon Enhancement	2,422,051	0.2%	3,701,801	0.3%	3,643,990	0.2%
Telephone Cooperative	1,836,740	0.2%	1,352,643	0.1%	1,587,391	0.1%
Electric Cooperative	1,817,958	0.2%	1,786,712	0.2%	1,742,103	0.1%
Salmon Marketing	1,412,041	0.1%	1,986,718	0.2%	2,554,607	0.2%
Estate	1,221,757	0.1%	3,117,413	0.3%	2,683,080	0.2%
Mining License	351,387	0.0%	466,430	0.0%	1,729,156	0.1%
Dive Fisheries	204,738	0.0%	192,110	0.0%	222,794	0.0%
Total General Fund	<u>1,202,172,495</u>	<u>100.0%</u>	<u>1,123,490,326</u>	<u>100.0%</u>	<u>1,495,151,091</u>	<u>100.0%</u>
¹ Includes credit for municipal property tax paid (\$220,096,442 in FY 2003, \$220,713,351 in FY 2002, and \$220,196,879 in FY 2001)						
Constitutional Budget Reserve Fund (CBRF)						
Oil & Gas Corporate Income	17,221,507	82.2%	65,649,583	73.0%	4,301,073	11.0%
Oil and Gas Severance	3,681,970	17.6%	24,243,395	27.0%	34,792,502	88.9%
Oil and Gas Property	(2,929)	0.0%	0	0.0%	29,457	0.1%
Mining License	44,867	0.2%				
Total CBRF	<u>20,945,415</u>	<u>100.0%</u>	<u>89,892,978</u>	<u>100.0%</u>	<u>39,123,032</u>	<u>100.0%</u>
School Fund						
Tobacco	30,606,828	100.0%	30,272,141	100.0%	30,659,662	100.0%
Cigarette License Fees	5,520	0.0%	3,220	0.0%	2,795	0.0%
Total School Fund	<u>30,612,348</u>	<u>100.0%</u>	<u>30,275,361</u>	<u>100.0%</u>	<u>30,662,457</u>	<u>100.0%</u>
Total All Funds	<u>\$1,253,730,258</u>	<u>100.0%</u>	<u>\$1,243,658,665</u>	<u>100.0%</u>	<u>\$1,564,936,580</u>	<u>100.0%</u>

Chart 1
General Fund Tax Collections



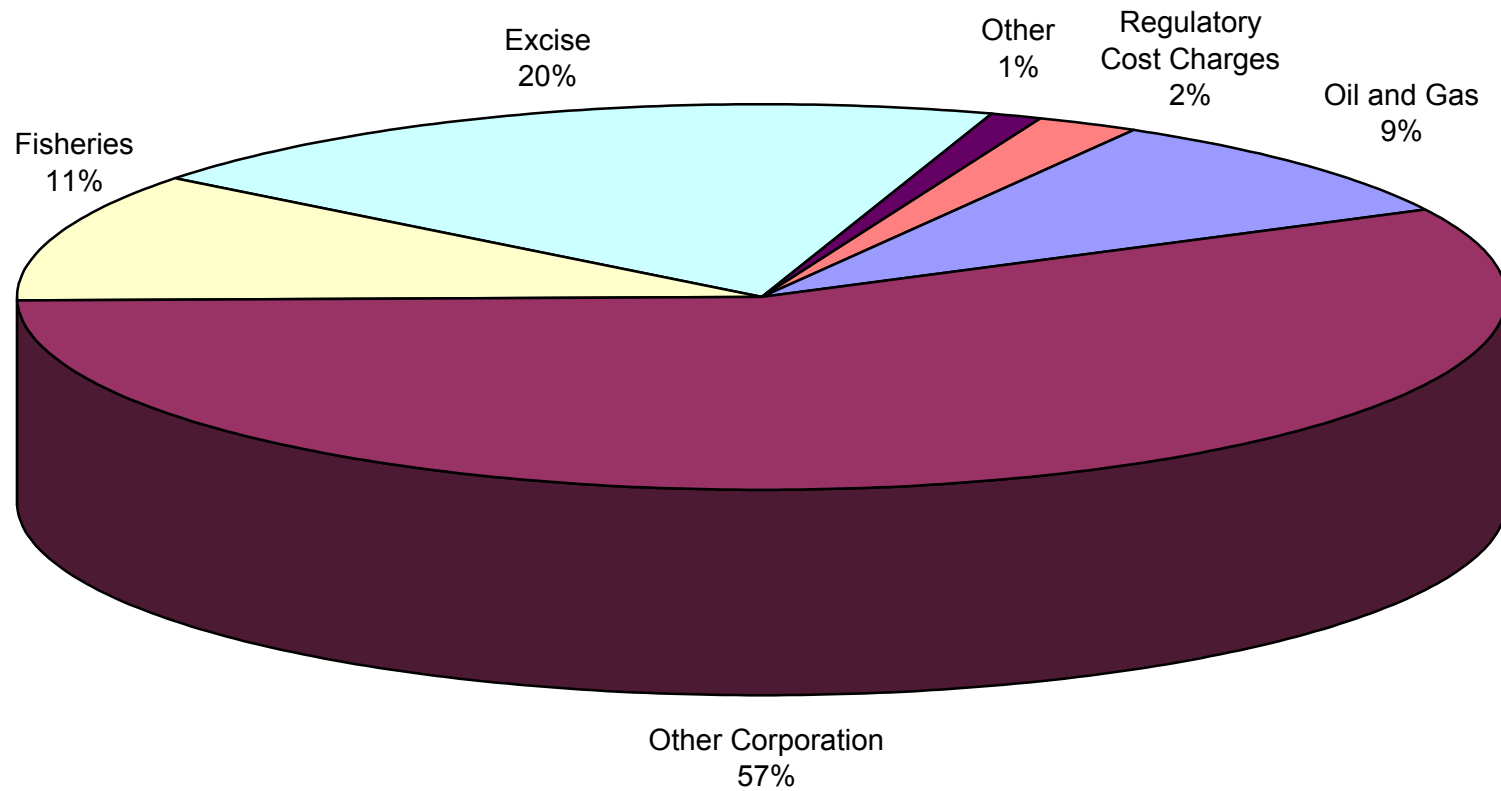
Total Tax Collections: \$1,202,172,495

Oil & Gas Severance includes the production tax and the conservation surcharge on oil and gas.

Other Fisheries includes resource landing, dive fisheries, salmon enhancement and marketing taxes, and seafood marketing assessment collections.

Other includes estate, electric and telephone cooperative, gaming, mining license tax.

Chart 2
Tax Returns Filed



(figures include original and amended returns)

Total Tax Returns Filed:					
Oil and Gas	2,409	Fisheries	2,671	Other	783
Production	2,256	Salmon Marketing	869	Estate	45
Corporate Income	62	Fisheries Business	560	Electric Cooperative	20
Property	91	Salmon Enhancement	871	Mining License	190
		Seafood Marketing	245	Telephone Cooperative	6
Other Corporate	14,015	Fishery Resource Landing	97	APUC Reg Cost Charges	522
		Dive Fisheries	29		
Excise	4,771				
Motor Fuel	3,587				
Tobacco	865				
Alcohol	319				

2003 NEW LEGISLATION

The 2003 legislature passed eleven bills that directly affect the Tax Division. The Governor signed the following bills into law:

HB 16 (Ch 4 SLA 2003) - Reauthorization of the Stranded Gas Development Act. This bill passed into law in 1988 with a June 30, 2001 application deadline. The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. The fiscal system would be negotiated between the administration, with the Department of Revenue as the lead agency, and the project sponsors, and approved by the Legislature. The reauthorization, among other changes, set a new application deadline of March 31, 2005.

HB 61 (Ch 61 SLA 2003) - Gas Exploration and Development Tax Credit. This bill allows a corporate income tax credit for 10 percent of qualifying expenditures incurred in exploration and development of natural gas reserves in Alaska, except for the North Slope.

The bill took effect June 12, 2003. Qualifying expenditures must be made after June 30, 2003 and before December 31, 2012. The credit applies to tax liabilities incurred after December 31, 2002 and can be carried forward to the tax year ending December 31, 2017.

HB 90 (Ch 57 SLA 2003) - Fisheries Business Tax Credit: Salmon Product Development / Utilization. This bill allows tax credits against the fisheries business tax to encourage the development of salmon products and the utilization of salmon waste. The amount of the tax credit cannot exceed 50 percent of the taxpayer's fisheries business liability for processing of salmon during the tax year.

The tax credit provisions took effect June 11, 2003 and are retroactive to January 1, 2003. The bill will sunset on December 31, 2005. Unused credits earned may be carried forward for three years.

HB 104 (Ch 55 SLA 2003) - Payment of the Fisheries Business Tax. This bill allows for monthly payment of the fisheries taxes in lieu of existing forms of security or prepayment as a prerequisite to licensure. Fisheries businesses electing this option must post a \$50,000 bond or demonstrate \$100,000 equity in real property within the state.

This Act took effect September 8, 2003.

HB 224 (Ch 103 SLA 2003) - Cigarette Sales Requirements. This bill requires cigarette manufacturers to certify to the division that they are either a signatory to the tobacco Master Settlement Agreement or in compliance with AS 45.53. The division is required to post a list of compliant cigarette manufacturers and their brands on its website. Only those brands of cigarettes included on the list may be sold in Alaska.

This Act took effect June 17, 2003.

HB 246 (Ch 92 SLA 2003) - Transfer of Royalty Audit Function to DNR. This bill transferred the responsibility for royalty audits from DOR to DNR.

HB 271 (Ch 105 SLA 2003) - Passenger/Recreational Vehicle Rental Tax. This bill levies a 10 percent tax on passenger vehicle rentals of 90 days or less, and a three percent tax on rentals of recreational vehicles for 90 days or less.

The vehicle rental tax provisions will be effective January 1, 2004.

2003 NEW LEGISLATION

SB 106 (Ch 131 SLA 2003) - Fees for Tires. This bill has two components and both fees are imposed at the retail level. The first part of the bill imposes a \$2.50 on all new tires sold in Alaska for motor vehicles designed for highway use. It became effective September 26, 2003.

The second part of the law imposes an additional \$5.00 fee per tire on all new tires with heavy studs and on the installation of studs on a previously un-studded tire. This part of the law is effective July 1, 2004.

SB 112 (Ch 107 SLA 2003) - Motor Fuel Tax: Government Agency Refunds. This bill makes it easier for the state to issue motor fuel excise tax refunds for credit card purchases made by federal state and municipal agencies.

The bill took effect June 17, 2003.

SB 168 (Ch 109 SLA 2003) Cigarette Sales/Distribution. This bill requires that an Alaska cigarette tax stamp be affixed to each cigarette pack prior to sale, distribution or consumption. Additionally, the bill prohibits the sale of cigarettes at less than cost and establishes procedures for determining the “actual cost” to the wholesaler or retailer.

The cigarette tax stamp and pricing provisions take effect January 1, 2004

SB 185 (CH 59 SLA 2003) Royalty Reduction/Credit for Certain Exploration Expenses Against Oil and Gas Production Tax. Explorers may take a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it can be carried forward month to month until fully applied or sold to another taxpayer.

To qualify the work must have been performed between July 1, 2003 and July 1, 2007. However the credits cannot be applied until after July 1, 2004 (i.e. in FY 2005).

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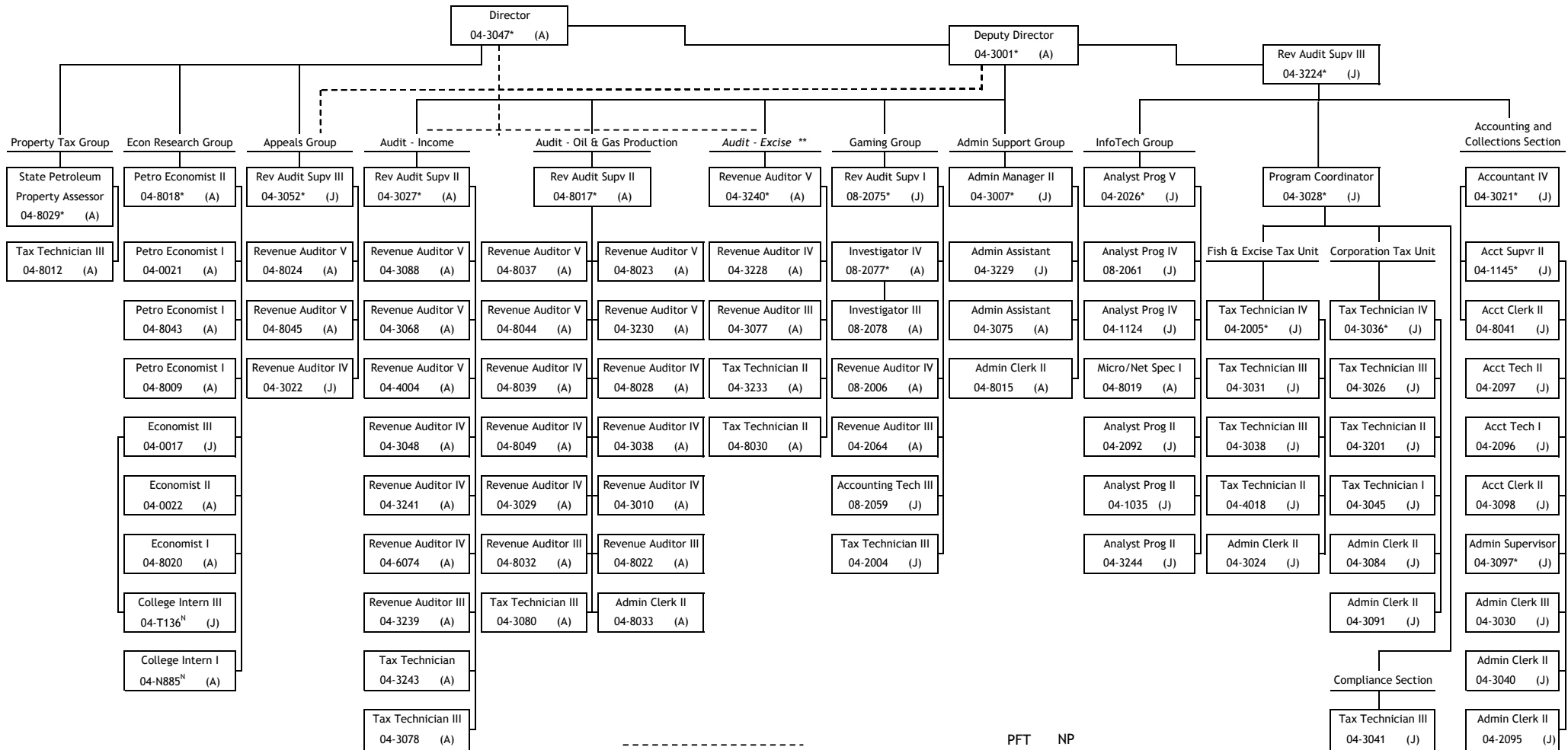
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FY 2003 Organization Chart



Indicates dual responsibility
by Director and Deputy Director

** Unit formed effective FY04

* Supervisory

N Non Perm

	PFT	NP
Anchorage	49	1
Juneau	38	1
Total	87	2

FUNCTIONS

During the fiscal year 2003, the Tax Division was staffed by 87 full time and 2 college intern positions, and maintained offices in Juneau and Anchorage. The Division's FY 2003 operating budget was \$6.7 million. The Division is organized according to the functional groups of **Operations, Audit, Appeals, Gaming, Property Tax, and Economic Research;** and the support groups, **Information Technology and Administrative Support.**

OPERATIONS

Operations, located in Juneau and staffed by 30 full time positions, is responsible for receipt and processing of tax returns and payments other than oil and gas severance and property taxes. The Anchorage based Oil and Gas Severance Audit Group receives oil and gas severance and property tax returns, examines and processes the payments.

In conjunction with provisions for the Constitutional Budget Reserve Fund, *Operations* is responsible for accounting for oil and gas settlement payments received by the state and maintains a database of settlement payments.

Operations consists of three sections: **Accounting and Collections, Examination and Compliance, and Information Technology**

Accounting and Collections, staffed by 10 full time positions, is responsible for receiving and processing tax payments, data entry of tax return information into the Division's tax accounting system (TAS), and reconciling TAS revenues to the state's accounting system (AKSAS).

Accounting and Collections is responsible for processing payments, which includes data capturing payment information into TAS and reconciling activity to deposit summary information. The unit also posts assessments for additional taxes and penalties into TAS.

Accounting and Collections generates management reports as a part of its reconciliation process and for identifying exception items. This section generates special management reports for Division staff upon request.

Accounting and Collections is responsible for enforcement of delinquent accounts. Enforcement activities include contacting taxpayers for payment and taking appropriate actions to collect delinquencies such as filing liens and levying assets.

Accounting and Collections is also responsible for *Shared Taxes and Reporting*.

Shared Tax is responsible for sharing taxes and fees, when applicable, to municipalities in accordance with statutory requirements. Shared Taxes accounts for revenues subject to sharing and periodically issues warrants to communities for their portion of tax collections. The amount shared is based upon where the tax or fee was derived. In FY 2003, the Tax Division shared \$17,906,811 to 121 Alaska communities.

The following taxes and fees are subject to sharing:

Aviation Motor Fuel Tax
Electric Cooperative Tax
Fisheries Business Tax
Fishery Resource Landing Tax
Liquor License Fees
Telephone Cooperative Tax

A Shared Tax Report is prepared annually, which summarizes the amounts shared with each community. The Division distributes the annual report to the public via the Internet. The report is available on the Division's website at www.tax.state.ak.us.

For fisheries business and fishery resource landing tax programs, taxes sourced from activities in the unorganized borough are subject to sharing to municipalities through an allocation program administered by Department of Community and Economic Development (DCED). The Tax Division transmits funds to DCED each year for allocation. For FY 2003, the Division transmitted \$1,684,091 for additional sharing.

Accounting and Collections is also responsible for *Reporting*. This section is responsible for summarizing and reporting of financial data and providing financial oversight and control of agency accounting functions. This section supports the Division in reporting needs which includes: the design and modification of

FUNCTIONS

accounting systems, evaluate, design and maintain appropriate systems of internal accounting controls over tax payments, refunds and disbursement of all tax programs including those taxes subject to sharing and pass through.

Examination and Compliance, staffed by 13 full time positions, is responsible for examining selected returns and issuing licenses to taxpayers. As part of the examination process, tax examiners generate assessments for additional taxes and penalties. This unit is also responsible for ensuring taxpayer compliance.

Within Examination and Compliance are two examination units responsible for different tax types: *Corporation Tax*, and *Fish and Excise Tax*.

Corporation Tax is responsible for processing and examining corporation net income tax returns. In addition to the corporation returns, the unit receives partnership and other information returns associated with the corporate net income tax.

The corporation tax exam group examines returns based on priority criteria, which include large dollar tax liabilities, large refund or credit claims and returns with exceptions.

The unit assists in updating corporation tax return forms to reflect changes in federal and Alaska tax laws. The unit maintains corporation tax return files, taxpayer correspondence and estimated payment documents. Returns and related documents older than three years are archived.

Corporation Tax also approves clearances from state agencies that are making final payment on state contracts.

Fish and Excise Tax unit is responsible for processing and examining returns other than corporation returns and for licensing taxpayers. The *Fish and Excise Tax* unit also:

- ◆ Licenses fisheries businesses that process or export fisheries resources from the state. As part of the licensing function, the section

accounts for cash prepayments and other forms of security submitted by processors to secure payment of their fisheries business tax liabilities.

- ◆ Administers the fish processor surety bonding program. This program requires that fisheries processors and buyers secure a \$2,000, \$10,000, \$20,000, \$50,000 or \$100,000 bond, depending on their activity, as surety against future claims from employees and fishers.
- ◆ Administers the following licensing programs: fisheries, motor fuel (qualified dealers), mining, alcoholic beverages and tobacco.
- ◆ Examines motor fuel tax refunds requested by consumers who purchased and paid tax on motor fuel but used the fuel for off-highway or exempt purposes.
- ◆ Publishes statewide average price information (from data provided by Department of Fish and Game) for fishery resources landed in the state. Taxpayers use the average price information to calculate their fishery resource landing tax liabilities.

Compliance is responsible for securing returns from businesses and individuals required to file tax returns with the state.

Compliance compares data from external agencies, such as IRS and Alaska Department of Community and Economic Development, against Tax Division files to identify potential taxpayers. *Compliance* also follows up on compliance leads from internal and external sources.

Information Technology is staffed by 7 full time positions. The unit maintains the Division's Tax Accounting System (TAS), provides technical support for tax management issues and implements technical support systems specific to a tax environment. This unit provides a crucial technical liaison between the Alaska State Accounting System and the Tax Accounting System. This unit is also responsible for providing technical upgrades that enhance customer service to Alaska's taxpayers.

FUNCTIONS

AUDIT

In FY03, *Audit* was comprised of two audit groups differentiated by tax types. Effective FY04, the audit function was reorganized to form a third audit group. All audit groups are based in Anchorage. The Division staffs *Audit - Income Group* with 10 full time positions, *Audit - Oil and Gas Production Group* with 15 full time positions and the new audit team, *Audit - Excise Group* with 5 full time positions.

Audit - Income Group is responsible for auditing corporate net income tax (including oil and gas corporate income taxes). *Audit - Oil and Gas Production Group* is responsible for auditing oil and gas severance and property taxes. Through the end of FY03, *Audit - Oil and Gas Production Group* was also responsible for auditing oil and gas royalties on behalf of the Department of Natural Resources which administers Alaska's oil and gas royalty program. The newly formed *Audit - Excise Group* is responsible for audit of all excise taxes including Alcohol, Cigarettes/Tobacco, Motor Fuels, etc.

The audit groups represent the Division's core technical and analytical resource providing support in many functions of the Division. *Audit* plays a critical role in drafting and implementing regulations, conducts special projects, and provides support to Appeals.

APPEALS

Appeals is located in Juneau and Anchorage and staffed by 4 full time positions. *Appeals* staff conduct conferences on protested assessments and issue informal conference decisions of the Department of Revenue for all programs and tax types administered by the Division.

Appeals represents the department as counsel in disputed cases before the Office of Tax Appeals and represent the Division before a Department Hearing Examiner in gaming and unclaimed property cases. *Appeals* also works closely with the Department of Law in these and various other matters. *Appeals* performs a myriad of special projects in a legal, technical or tax context and are involved in drafting proposed legislation and regulations.

GAMING

Gaming is located in Juneau and Anchorage and is staffed with 7 full time positions. *Gaming* is responsible for overseeing charitable gaming activities conducted in the state.

Gaming issues annual permits and licenses to non-profit organizations and operators to conduct charitable gaming activities in the state. The *Gaming* section publishes its own annual report that includes more detailed descriptions of this program.

PROPERTY TAX

The Division staffs the Oil and Gas *Property Tax* group in Anchorage with 2 full time positions. The unit is responsible for assessment, compliance, audit, collection, and administrative processing of property tax assessments. Many of the unit's duties are performed by municipal authorities under a Memorandum of Agreement (MOA) and by engineering and appraisal experts working under contract. The unit performs compliance and collection functions and is responsible for processing returns. The Division or taxpayers may initiate audits. Audits and appraisals conducted by the unit are typically highly specialized valuations for which the unit uses outside experts on an as needed basis.

ECONOMIC RESEARCH

Economic Research, located in Anchorage and Juneau, is staffed by 7 full time positions and 2 college interns. The group is responsible for monitoring and forecasting the state's General Fund revenues.

Economic Research monitors state and national economic conditions and conducts research needed to anticipate economic and business trends that affect tax revenue. The unit works with other state agencies to compile information for the *Revenue Sources Book*, a semi-annual publication that contains historical and forecasted revenue information to assist the governor and legislature in developing the state's budget.

The *Economic Research* group prepares and presents to the legislature fiscal notes projecting the costs and revenues from proposed legislation that would affect the state fiscal system.

Table 2 - Revenue Collections Detail

	FY 03	FY 02	FY 01
OIL AND GAS TAXES			
General Fund revenue			
Severance Taxes			
Oil & Gas Production	\$ 589,731,934	\$ 486,740,276	\$ 694,390,581
Oil & Gas Hazardous Release	9,232,859	9,597,043	9,432,048
Credits	0	0	0
Severance tax total	598,964,793	496,337,319	703,822,629
Property Tax	268,844,716	270,354,442	265,283,557
Local credits	(220,096,442)	(220,713,351)	(220,196,879)
Property tax total	48,748,274	49,641,091	45,086,678
Oil & Gas Corporate Income Tax	151,395,925	178,790,762	338,319,616
Alaska Education Credit	(307,625)	(404,452)	(196,837)
Oil & Gas Corporate Income Tax total	151,088,300	178,386,310	338,122,779
Total Oil & Gas Tax Receipts - General Fund	798,801,367	724,364,720	1,087,032,086
Constitutional Budget Reserve Fund - CBRF			
Oil and Gas Severance Tax	3,681,970	24,243,395	34,792,502
Oil & Gas Corporate Income Tax	17,221,507	65,649,583	4,301,073
Oil and Gas Property	(2,929)	0	29,457
Total Receipts - CBRF	20,900,548	89,892,978	39,123,032
Total Oil & Gas Receipts - All Funds	\$ 819,701,915	\$ 814,257,698	\$ 1,126,155,117
CORPORATE NET INCOME TAX - other than oil & gas corporations			
Corporate Income Tax	48,405,650	54,350,230	60,426,111
Alaska Education Credit	(693,196)	(900,815)	(966,953)
Total Receipts	\$ 47,712,454	\$ 53,449,415	\$ 59,459,158
TOBACCO			
Cigarette	\$ 40,239,153	\$ 39,760,717	\$ 41,653,232
Tobacco Products	6,657,704	6,042,653	5,378,631
Penalties and Interest	61,263	66,672	36,485
Less .4% Deductions	(63,507)	(62,924)	(58,751)
Total Receipts	46,894,613	45,807,118	47,009,597
Less Amount Transferred to School Fund	(30,606,828)	(30,272,141)	(30,659,662)
Amount Retained in General Fund	\$ 16,287,785	\$ 15,534,977	\$ 16,349,935

Table 2 - Revenue Collections Detail

	FY 03	FY 02	FY 01
MOTOR FUEL			
Highway	\$ 26,518,253	\$ 28,723,637	\$ 26,948,664
Marine	5,938,976	5,806,527	5,869,754
Jet Fuel	4,067,223	4,863,137	3,971,044
Aviation Gasoline	834,042	771,289	793,403
Total Tax	37,358,494	40,164,590	37,582,866
Penalties and Interest*	(5,522)	187,806	155,648
Total Receipts	37,352,972	40,352,396	37,738,514
Less Aviation Fuel Tax Shared	(169,600)	(158,781)	(161,385)
Amount Retained by State	\$ 37,183,372	\$ 40,193,615	\$ 37,577,129
FISHERIES BUSINESS			
<i>Established</i>			
Shore-based	\$ 17,128,133	\$ 17,117,467	\$ 18,978,589
Floating	3,984,657	4,105,428	5,835,215
Cannery	2,150,977	3,117,556	4,490,084
<i>Developing</i>			
Shore-based	21,879	22,717	21,113
Floating	158	200	3,464
Total Tax	23,285,804	24,363,368	29,328,465
Prepayments	2,999,554	1,041,507	998,502
Penalties and Interest	30,813	27,756	418,843
License Fees	16,245	15,525	18,650
Total Tax Before Credits	26,332,416	25,448,156	30,764,460
Less Credits			
Winn Brindle	(176,114)	(153,991)	(265,011)
Alaska Education Credit	(153,589)	(1,794)	(4,815)
Total Receipts	26,002,713	25,292,371	30,494,634
Less Fisheries Tax Shared			
Department of Revenue	(10,806,426)	(11,158,745)	(13,702,505)
Department of Community and Economic Development	(1,362,651)	(1,396,076)	(1,350,886)
Amount Retained by State	\$ 13,833,636	\$ 12,737,550	\$ 15,441,242
DEC Seafood Processor License Fees	\$ 424,495	\$ 400,316	\$ 423,717
ALCOHOLIC BEVERAGES			
Liquor	\$ 11,246,889	\$ 6,565,654	\$ 6,182,071
Wine	3,010,269	1,337,547	1,211,943
Beer	10,695,105	4,977,703	4,905,533
Beer Qualifying for Reduced Rate of Tax	407,277	0	0
Penalties, Interest and Refunds	1,268	8,352	(296,588)
Total Receipts	25,360,808	12,889,256	12,002,959
Less Amount Transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	(11,222,078)	-	-
Unrestricted Amount Retained in General Fund	\$ 14,138,730	\$ 12,889,256	\$ 12,002,959

* Interest paid on refunds exceeded penalties and interest collected on assessments in FY 2003.

Table 2 - Revenue Collections Detail

	FY 03	FY 02	FY 01
SALMON ENHANCEMENT			
Tax by Aquacultural Region			
Southern Southeast	\$ 560,456	\$ 1,329,122	\$ 754,475
Northern Southeast	659,790	874,190	1,193,322
Cook Inlet	244,719	165,972	187,202
Prince William Sound	559,046	705,283	761,167
Kodiak	279,692	451,211	479,706
Chignik	109,035	169,673	260,739
Total Tax	2,412,738	3,695,451	3,636,612
Penalties and Interest	9,313	6,350	7,378
Total Receipts	\$ 2,422,051	\$ 3,701,801	\$ 3,643,990
FISHERY RESOURCE LANDING			
Tax Before Credits	\$ 8,602,123	\$ 6,079,681	\$ 5,553,210
Pre-Payments	2,779,920	2,411,160	2,480,391
Penalties, Interest and Refunds	96,072	518,814	30,995
Less Credits			
CDQ Contributions	(396,650)	(227,505)	(102,960)
Winn Brindle	(5,000)	(2,500)	(5,000)
Alaska Education Credit	(1,200,000)	(1,555,875)	(607,897)
Total Receipts	9,876,465	7,223,775	7,348,738
Less Landing Tax Subject to Sharing			
Department of Revenue	(2,628,024)	(4,313,979)	(2,995,313)
Department of Community and Regional Affairs	(321,440)	(256,648)	(246,740)
Amount to be Retained by State	\$ 6,927,001	\$ 2,653,148	\$ 4,106,686
REGULATORY COMMISSION of ALASKA			
Electric Utilities	\$ 1,488,845	\$ 1,530,750	\$ 1,269,376
Telephone Utilities	2,388,840	2,181,803	2,126,418
Other Utilities	1,155,708	1,335,354	798,832
Pipeline Carriers	805,986	807,670	633,288
Total Receipts	\$ 5,839,379	\$ 5,855,577	\$ 4,827,913
SALMON MARKETING			
Tax	\$ 1,406,087	\$ 1,968,797	\$ 2,550,691
Penalties and Interest	5,954	17,921	3,916
Total Receipts	\$ 1,412,041	\$ 1,986,718	\$ 2,554,607
SEAFOOD MARKETING ASSESSMENT			
Fisheries Business	\$ 2,167,147	\$ 2,122,361	\$ 2,510,251
Fishery Resource Landing	822,784	576,095	646,591
Total Receipts	\$ 2,989,931	\$ 2,698,456	\$ 3,156,843

Table 2 - Revenue Collections Detail

	FY 03	FY 02	FY 01
MINING LICENSE			
General Fund			
Current Year Tax Before Credits	\$ 383,691	\$ 497,552	\$ 5,311,921
Less Alaska Special Industrial Incentive Credit			(3,582,765)
Less Mineral Exploration Incentive Credit	(29,736)	(28,282)	
Less Alaska Education Credit	(2,568)	(2,840)	
Total Receipts - General Fund	351,387	466,430	1,729,156
Constitutional Budget Reserve Fund			
Current Year Tax	44,867	0	0
Total Receipts - CBRF	44,867	0	0
Total Mining License Receipts - All Funds	\$ 396,254	\$ 466,430	\$ 1,729,156
ESTATE			
Total Receipts	\$ 1,221,757	\$ 3,117,413	\$ 2,683,080
CHARITABLE GAMING			
3% Pull Tab Tax	\$ 2,077,176	\$ 2,045,124	\$ 1,920,753
1% Net Proceeds Fee	370,524	325,218	320,428
Licensing Fees	137,807	141,863	139,130
Total Receipts	\$ 2,585,507	\$ 2,512,205	\$ 2,380,311
ELECTRIC COOPERATIVE			
Total Receipts	\$ 1,817,958	\$ 1,786,712	\$ 1,742,103
Less Cooperative Taxes Shared	(1,752,988)	(1,719,948)	(1,667,265)
Amount Retained by State	\$ 64,970	\$ 66,764	\$ 74,838
TELEPHONE COOPERATIVE			
Total Receipts	\$ 1,836,740	\$ 1,352,643	\$ 1,587,391
Less Cooperative Taxes Shared	(1,709,074)	(1,283,540)	(1,504,026)
Amount Retained by State	\$ 127,666	\$ 69,103	\$ 83,365
DIVE FISHERY MANAGEMENT ASSESSMENT			
Southeast Alaska - Management Area A	\$ 204,738	\$ 192,110	\$ 222,794
Total Receipts	\$ 204,738	\$ 192,110	\$ 222,794
CIGARETTE LICENSE FEES			
(Transferred Directly to School Fund)			
Total Receipts	\$ 5,520	\$ 3,220	\$ 2,795

Table 3
Program Revenue and Cost Detail

(Sorted by Revenue)

(Sorted by Revenue)			Program		Per FTE ²	
	Returns	Revenue	Cost ¹	FTE ²	Revenue	Cost
Tax Program						
Oil and Gas Severance ³	2,256	\$602,646,763	\$1,874,482	23.1	\$26,088,604	\$81,146
Oil and Gas Property ⁴	91	268,841,787	430,567	3.2	84,013,058 *	134,552 *
Oil and Gas Corporate Income ⁵	62	168,309,807	624,274	7.7	21,858,416	81,075
Corporate Income (non-Oil & Gas)	14,015	47,712,454	1,108,317	18.8	2,537,896	58,953
Tobacco ⁶	865	46,900,133	315,840	4.1	11,439,057	77,034
Motor Fuel	3,587	37,352,972	309,373	4.5	8,300,660	68,750
Fisheries Business	560	26,002,713	556,023	8.8	2,954,854	63,184
Alcoholic Beverages ⁷	319	25,360,808	141,401	2.0	12,680,404	70,701
Fishery Resource Landing	97	9,876,465	38,575	0.7	***	***
Regulatory Cost Charges	522	5,839,379	16,247	0.3	***	***
Seafood Marketing Assessments	245	2,989,931	61,780	1.0	2,989,931	61,780
Salmon Enhancement	871	2,422,051	46,501	0.6	***	***
Telephone Cooperative	6	1,836,740	4,586	0.1	***	***
Electric Cooperative	20	1,817,958	3,078	0.1	***	***
Salmon Marketing	869	1,412,041	46,501	0.5	***	***
Estate	45	1,221,757	18,435	0.3	***	***
Mining License ⁸	190	396,254	16,712	0.3	***	***
Dive Fishery	29	204,738	4,391	0.1	***	***
Total Tax Programs	24,649	1,251,144,751	5,617,083	76.2	16,419,222 **	73,715 **
(Reports and Applications)						
Gaming Program	4,527	2,585,507	974,134	9.7	266,547	100,426
Total Gaming	4,527	2,585,507	974,134	9.7		
Royalty ⁹	n/a	n/a	98,382	1.1	n/a	89,438
Total All Programs	29,176	1,253,730,258	6,689,599	87.0		

¹ Includes total operating costs of the division.² Full-time equivalent staff position³ Includes CBRF receipts of \$3,681,970⁴ Includes CBRF refund of \$2,929⁵ Includes CBRF receipts of \$17,221,507⁶ Includes school fund receipts (tobacco = \$30,606,828, cigarette licenses = \$5,520)⁷ Includes alcohol and other drug abuse treatment fund receipts = \$9,774,430⁸ Includes CBRF receipts of \$44,867⁹ Department of Natural Resources collected \$4,036,000 revenues from this program during FY 2003. Of this amount, \$1,850,000 resulted from audits performed by the Tax Division

* Because significant Oil & Gas Property tax audit functions are performed by outside contractors who are not included in the FTE count, these revenue and cost per FTE statistics are not comparable to other programs.

** Total revenue and cost per FTE is based on average revenue and costs for all tax programs.

*** Combined revenues and costs for these programs are \$25,027,383 and \$195,026 respectively. These programs require 3 FTE positions.

Combined revenue and cost per FTE are \$8,483,859 and \$66,111, respectively.

Table 4
Revenue Collected From Enforcement Activity

(Sorted by total collections)

Tax Type				Staffing (FTE)¹		Per FTE¹	
	Audit	Exam	Total	Audit	Exam	Audit	Exam
Oil and Gas Corporate Income	\$ 17,221,507	\$ 110,614	\$ 17,332,121	4.4	0.8	\$ 3,913,979	**
Corporate Income	3,659,374	282,060	3,941,434	3.5	4.0	1,045,535	70,515
Oil and Gas Production	3,681,970	0	3,681,970	10.5	2.3	350,664	**
Royalty and NPS	1,850,000	0	1,850,000	1.0	0.0	1,850,000	**
Motor Fuel	59,515	1,628,017	1,687,532	0.7	1.0	**	1,628,017
Mining	44,867	44,867	89,734	0.0	0.1	**	**
Tobacco	0	61,693	61,693	1.7	0.7	**	**
Fishery Resource Landing	0	38,409	38,409	0.1	0.2	**	**
Telephone Cooperatives	16,500	0	16,500	0.0	0.0	**	**
Fisheries Business	0	12,328	12,328	0.7	3.7	**	3,332
Salmon Enhancement	0	4,662	4,662	0.0	0.2	**	**
Seafood Marketing	0	3,161	3,161	0.0	0.4	**	**
Salmon Marketing	0	2,703	2,703	0.0	0.2	**	**
Estate	0	488	488	0.0	0.1	**	**
Dive Fisheries	0	101	101	0.0	0.0	**	**
Alcoholic Beverage	0	95	95	0.9	0.2	**	**
Charitable Gaming	0	0	0	2.0	1.1	**	**
APUC	0	0	0	0.0	0.0	**	**
Oil and Gas Property	(2,929)	0	(2,929)	0.5	1.0	**	**
Total	\$ 26,530,804	\$ 2,189,198	\$ 28,720,002	26.0	16.0	\$ 1,020,416 *	\$136,825 *

1 Full Time Equivalent staff position

* Total revenue and cost per FTE is based on average revenue and costs for all tax programs.

** Collections per FTE not provided since audit or exam FTE positions allocated to these programs are less than one or there were no collections allocable to FTE positions

ALCOHOLIC BEVERAGES TAX

AS 43.60

Description

Alaska levies this tax on alcoholic beverages sold in Alaska. The Division collects alcoholic beverage taxes primarily from wholesalers and distributors.

Rate

<i>Product</i>	<i>Current Rate Per Gallon</i>
Liquor	\$12.80
Wine	2.50
Beer (Malt Beverage and Cider)	1.07
Beer (Small Breweries)	0.35

Returns

Taxpayers file returns and pay tax monthly. The returns and payment are due by the last day of the month following the month in which the taxpayer made the sales.

Exemptions

Sales to facilities operated by one of the uniformed services of the United States are exempt.

Disposition of Revenue

The Division deposits all alcoholic beverage tax revenue into the General Fund. The Department of Administration shall separately account for 50 % of the tax collected and deposit it into the alcohol and other drug abuse treatment and prevention fund.

History

The alcoholic beverage tax dates back to 1933 when the Legislature enacted a tax on beer and wine at a rate of 5¢ per gallon. Taxpayers filed alcohol tax returns monthly.

In 1937, the territorial legislature enacted a tax on liquor at a rate of 50¢ per gallon. The rate for wine increased to 15¢ per gallon.

Since 1937, the legislature has made minor changes to the statute; however, the legislature increased rates significantly in keeping with rate changes made by other states. Alcoholic beverages tax rates have changed (as displayed in following graph).

2002 – Effective October 1, 2002 the tax rates on all three alcoholic beverages were increased. However, breweries meeting the qualifications of 26 U.S.C.

5051(a)(2) are not subject to the increase on the first 60,000 barrels of beer (malt beverages) sold in Alaska.

<i>Liquor</i>	<i>Per Gallon</i>
1937	\$0.50
1941	\$1.00
1945	\$1.60
1946	\$2.00
1947	\$3.00
1957	\$3.50
1961	\$4.00
1983	\$5.60
2002	\$12.80

<i>Wine</i>	<i>Per Gallon</i>
1933	\$0.05
1937	\$1.15
1947	\$2.25
1957	\$5.50
1961	\$6.60
1983	\$8.85
2002	\$25.50

<i>Beer (Malt Beverages)</i>	<i>Per Gallon</i>
1933	\$0.05
1947	\$1.10
1957	\$2.25
1983	\$3.35
2002	\$10.70

FY 2003 Statistics

Tax Collections – Including penalties, interest & refunds	\$25,360,808
Number of Returns	319
Number of Taxpayers	27

Program Cost	\$141,401
Staffing (full-time equivalent)	2.0

<i>Product</i>	<i>Gallons*</i>	<i>Tax Collected</i>
Liquor	1,240,655	\$11,246,889
Wine	1,596,571	3,010,269
Beer, Malt Beverages and Cider	8,429,532	10,695,105
Beer, Small Breweries	5,722,807	407,277
Penalties, interest and refunds		1,268
Total		\$25,360,808

* Gallons represents sales prior to and after the change of tax rate on October 1, 2002.

CHARITABLE GAMING

AS 05.15

Description

Under Alaska law, municipalities and qualified non-profit organizations may conduct certain charitable gaming activities. The purpose of these activities is to derive public benefit in the form of money for the charities and revenues for the state.

To ensure that the appropriate level of public benefit is being derived, the Division performs the following: 1) issues permits to charities; 2) licenses all operators, distributors and manufacturers; 3) collects fees and taxes; 4) audits various permittees and licensees; 5) inspects gaming locations; and 6) investigates complaints.

Rate

Annual permit and license fees for games of chance and contests of skill are as follows:

Permits:

1. \$20 for an applicant that did not hold a permit during the preceding year;
2. \$20 for an applicant that had gaming gross receipts of less than \$20,000 during the preceding year;
3. \$50 for an applicant that had gaming gross receipts of \$20,000 or more but not exceeding \$100,000 during the preceding year; or
4. \$100 for an applicant that had gaming gross receipts exceeding \$100,000 during the preceding year.

Licenses:

1. \$500 for an operator license applicant;
2. \$1,000 for a distributor license applicant; or
3. \$2,500 for a manufacturer license applicant.

Reports

The Division requires the following reports:

Municipalities and Qualified Organizations issued a permit: Quarterly reports are due the 45th day following each calendar quarter in which the permittee had gross receipts of \$50,000 or more.

Permittees file annual reports on a calendar year basis, accompanied with payment of the *additional* fee, if required under AS 05.15.020(b), by March 15th of the following year. Under this statute, if the gross receipts for the activities were \$20,000 or more, an additional

fee of one percent of the net proceeds received during the preceding year is due.

Operators and Multiple-Beneficiary Permits: Quarterly reports are due on the last business day of the month following each calendar quarter. Annual reports for the calendar year are due no later than February 28 of the following year.

Operator Reports to Permittees are due monthly and must include a daily summary of activity conducted under the permit issued to the authorizing permittee and an accounting of gross receipts, expenses, and net proceeds for the month.

Manufacturers: Each pull-tab manufacturer must report by the last business day of the month on each series of pull-tabs distributed in the preceding month

Distributors: Distributors must collect a tax of 3% of an amount equal to the gross receipts less prices awarded on each series of pull-tabs distributed. Distributors must report by the last business day of each month, each pull-tab series distributed in the preceding month, and pay the taxes collected.

Exemptions

None

Disposition of Revenue

The Division deposits permit and license fees, the 1% net proceeds fee and the 3% pull-tab tax into the General Fund.

History

1960 – The legislature legalizes gaming and gives oversight for all gaming activities to the Department of Revenue.

1984 – The Department authorizes pull-tabs.

1988 – The legislature legalizes operators. Pull-tabs legalized by statute, and prize limits are increased.

1989 – The Governor transfers the Charitable Gaming functions to the Department of Commerce & Economic Development.

CHARITABLE GAMING

1993 - The Governor transfers the Charitable Gaming functions to the Department of Revenue.

HB 168 changed various aspects of the statutes governing charitable gaming in Alaska. The significant changes follow: Third party vendors were brought under statutory control which allow permittees to contract with them directly to sell pull-tabs; the Department was authorized to issue Multiple-Beneficiary Permits (MBP). MBP's enable two to six permittees to jointly conduct gaming activities. Minimum payments to charities increased from 15 percent to 30 percent of adjusted gross income for pull-tab games and require a minimum of 10 percent of adjusted gross income for all other activities.

1994 – The Department files regulations with the Lieutenant Governor that implement HB 168. Certain affected parties file suit to prevent the state from implementing the new regulations. The Alaska courts subsequently granted the request to enjoin the regulations.

1995 – The Governor appointed a fourteen member task force to make recommendations regarding the administration of charitable gaming. The task force had a broad mandate to look into all aspects of charitable gaming and to provide a report on its findings and recommendations to the Commissioner of Revenue.

The Legislature legalized cruise ship gambling activities in Alaska waters during the 1995 season. The gaming statutes required cruise ships pay a fee to game in Alaska and this generated over \$500,000 in State revenue during the 1995 season. This law sunsetted after 1995. Additionally, the Legislature eliminated Monte Carlo nights.

1996 – The Department finished a comprehensive rewrite of the regulations and adopted new regulations after a series of public hearings.

The Legislature created three new gaming activities: “Sled Dog Race Classic”, “Deep Freeze Classic” and “Snow Machine Classic”. The Legislature also created

the McGrath Kuskokwim River Ice Classic and the Creamer’s Field Goose Classic.

The Legislature prohibited the donation of net proceeds from pull-tabs and bingo activities to registered lobbyists’ and to certain political organizations.

2001 - Effective January 1, 2002, the Legislature added the Bristol Bay Native Corporation Education Foundation to the list of qualified organizations allowed to conduct “salmon classic” games of chance.

The Department proposed regulations and held public hearings in an effort to address various issues including unlicensed operators, conflicts of interest, methods of accounting, capital contributions, loans and gifts, and rules for MBPs. Comments received during the public hearings indicated unhappiness with the process and confusion with the proposed regulations.

The Alaska Supreme Court in *Botehlo v. Griffin*, 25 P3d at 693 ruled that “Alaska’s gaming laws create the effective equivalent of a charitable trust” by requiring a portion of the money spent on charitable gaming to benefit the public generally.

2002 –The Commissioner of Revenue appointed eleven members to a negotiated rule-making committee in an effort to garner input and suggestions and draft new proposed regulations. Members of the committee represented the interests of permittees, operators, MBPs, distributors, vendors, the public and the Department. The committee held nine meetings over five months to take public testimony, and draft new proposed regulations. The committee issued its final report on July 31, 2002.

Public hearings on the rule-making committee’s proposed regulations were held in August, 2002. The Department used the consensus of the rule-making committee, public testimony and written comments as a basis for the regulations it adopted on November 19, 2002. The regulations were effective, January 1, 2003.

CHARITABLE GAMING

Effective January 1, 2003, the Legislature added the Boys and Girls Club of the Kenai Peninsula to the list of qualified organizations allowed to conduct “mercury classic” games of chance.

2003 – Effective January 1, 2004, the Legislature allows a permittee that conducts a contest of skill and awards more than \$500,000 in prizes to the participants in that contest of skill, to exclude \$500,000 in prizes awarded to those participants from the \$1,000,000 maximum prize limitation.

FY 2003 Statistics

Taxes and Fees Collected	\$2,585,507
Number of Reports and Permit Applications	4,527
Program Cost	\$974,134
Staffing (<i>full time equivalent</i>)	9.7

CONSERVATION SURCHARGE ON OIL AS 43.55

Description

The Conservation Surcharge on Oil applies to all oil production within Alaska. The surcharge is a per barrel tax on oil production intended to fund the oil and hazardous substance release prevention account of the oil and hazardous substance release prevention and response fund. The Oil and Gas Production Tax (AS 43.55) and Conservation Surcharge on Oil are severance taxes.

Rate

The surcharge is currently comprised of two components 1) a \$.03/bbl charge on all oil production excluding public royalty barrels and 2) an additional \$.02/bbl charge on all oil production whenever the balance in the state oil and hazardous substance release prevention and response fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2003 so that the surcharge was \$.03/bbl for the entire fiscal year.

History

1989-- Following the grounding of the Exxon Valdez, this tax was enacted in order to provide a hazardous substance release emergency fund. A \$.05/bbl hazardous release surcharge is imposed on oil production until such time as the newly created hazardous substance release fund achieved a balance of \$50 million.

1994--The hazardous release surcharge is modified to the so-called "split nickel" with an ongoing charge of \$.03/bbl and an additional charge of \$.02/bbl whenever the hazardous substance release fund balance falls below \$50 million.

FY 2003 Statistics

Tax Collections	\$9,232,859
Number of Returns*	2,256
Number of Taxpayers*	13

* The Conservation Surcharge on Oil is reported on the same return and by the same taxpayers as is Alaska's other production tax, Oil and Gas Production Tax (AS 43.55). The Division has not segregated program cost and staffing related to each individual tax. The Division reports the total production tax cost and staffing in the discussion of Oil and Gas Production Tax.

CORPORATION INCOME TAX

AS 43.20

Description

Alaska levies the corporate net income tax on net income of corporations that have nexus and derive income from sources within Alaska. Corporations compute their tax liability based on federal taxable income with Alaska adjustments.

Alaska uses an apportionment method to determine the portion of income that is taxable in the state. Corporations other than oil and gas apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Taxpayers determine Alaska taxable income by applying the apportionment factor to the corporation's modified federal taxable income.

Multistate oil and gas corporations apportion income on a worldwide apportionment method. Other multistate corporations apportion income to Alaska under a "water's edge" apportionment method. A corporation engaged in business solely in Alaska computes its tax liability on 100% of its taxable income.

Rate

Corporation tax rates increase from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000.

Returns

Corporations file returns annually. Tax payments are due two and a half months from the close of the fiscal year. Taxpayers must remit tax payments over \$150,000 by wire transfer or electronic funds transfer (EFT). The payment due date may not be extended.

Tax returns are due three and a half months after the close of the fiscal year. Corporations may extend their filing due date by six months.

Example: The filing due date for calendar year corporations is April 15. Corporations may extend their filing due date to October 15. In any case, payment is due March 15.

Corporations make quarterly estimated tax payments based on past activity and the current year's accrued tax liability. Taxpayers must remit estimated

payments over \$100,000 by wire transfer or electronic funds transfer (EFT).

Exemptions

S-corporations and LLCs are generally exempt from corporation income tax and are treated as partnerships for Alaska tax purposes. Electric and telephone cooperatives, which are required to pay cooperative taxes under AS 10.25, are also exempt.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for 100% of eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved minerals exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the taking of the credit is approved. Application of the credit is limited to 50% of the lesser of the taxpayer's mining license tax liability or 50% of the taxpayer's total corporation net income tax liability.

Oil and Gas Exploration Incentive - Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of eligible oil and gas exploration costs. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of corporation net income taxes due.

Alaska Veterans' Memorial Endowment. This bill provides credits of up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. Taxpayers may not use a contribution claimed as a credit for more than one tax type. Also, when combined with credits for contributions to qualifying educational institutions, credits may not exceed \$150,000. These credits cannot exceed 50 percent of a taxpayer's tax liability.

CORPORATION INCOME TAX

2003 - *Gas Exploration and Development Tax Credit* allows a corporate income credit for 10 percent of qualifying expenditures incurred in exploration and development of natural gas reserves in Alaska, except for the North Slope.

Disposition of Revenue

The Division deposits revenue derived from corporation net income taxes into the General Fund except as noted below.

For oil and gas corporations only, the Division deposits into the Constitutional Budget Reserve fund those revenues received as a result of a tax assessment issued by the Division.

History

The corporation net income tax dates back to 1949 when the territorial legislature enacted the "Alaska Net Income Tax Act". The Act imposed a flat tax of 10% of the corporation's federal income tax liability.

1957 – Tax rate was increased to 18%.

1975 – Original income tax act repealed and an income tax act based on taxable income rather than federal tax liability was enacted. The tax was equal to 5.4% of taxable income with a surtax of 4% based on federal surtax exemptions. For 1975, the federal surtax exemption was \$50,000.

1978 – Oil and gas corporations required to calculate taxable income based on a "separate accounting" method requiring the corporations to account for Alaska activity only in determining taxable income (AS 43.21).

1981 – Separate accounting (AS 43.21) was repealed and the modern corporation tax rate structure was adopted (1% - 9.4%). With repeal of AS 43.21, all corporations file returns using worldwide combined reporting and use the same tax rate structure.

1984 – The legislature adopted the special industrial incentive investment tax credit.

1987 – Alaska education credit was authorized.

1991 – Alaska's legislature enacted a bill requiring corporations, except for oil and gas corporations, to calculate taxable income based on the "water's edge" combined reporting method. Oil and gas corporations continue to use the worldwide combined reporting method. Also, the legislature increased the Alaska education credit maximum from \$100,000 to \$150,000.

1994 – Alaska's legislature authorized the Oil and Gas Exploration Incentive Credit. The legislature limited the credit to \$30 million and provided that taxpayers may apply the credit to 100% of corporation taxes due.

1995 – Alaska's legislature authorized the minerals exploration incentive credit. The legislature limited the credit to \$20 million and taxpayers may apply it against 50% of corporation taxes due over a 15-year period.

1998 – Alaska's legislature enacted a bill exempting foreign cruise ship and airline companies from tax.

2002 – Alaska Veterans' Memorial Endowment provides credits of up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit provisions will sunset on July 1, 2003.

2002 – The Oil and Gas Exploration Incentive Credit extends the exploration incentive tax credit to June 30, 2007.

2003 – Legislation authorized the Gas Exploration and Development Tax Credit.

FY 2003 Statistics on following page.

CORPORATION INCOME TAX

FY 2003 Statistics

Tax Collections – Oil and Gas Corporations

General Fund	\$151,088,300
CBRF	17,221,507
Total	168,309,807

Number of Returns	62
Number of Taxpayers	28

Program Cost	\$624,274
Staffing (<i>full-time equivalent</i>)	7.7

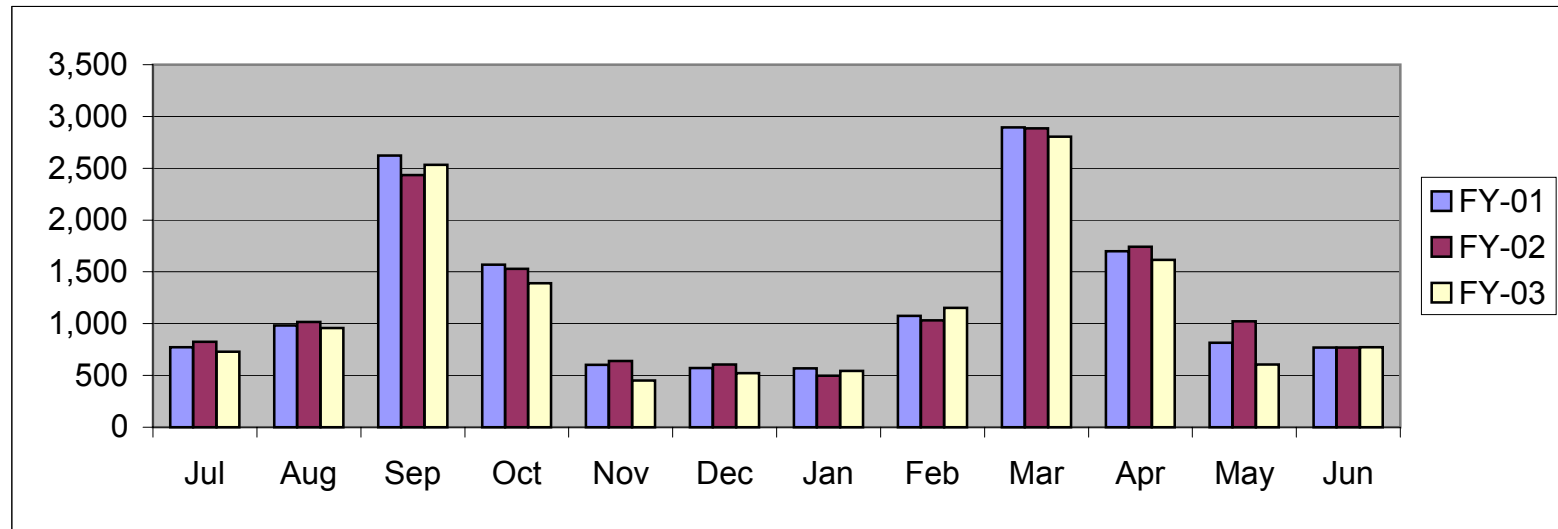
Tax Collections – Other Corporations

General Fund	\$47,712,454
Number of Returns	14,015
Number of Taxpayers	11,618

Program Cost	\$1,108,317
Staffing (<i>full-time equivalent</i>)	18.8

Chart 3
Corporations Filing Activity
For Fiscal Years 2001, 2002 and 2003

Number of Returns Filed by Month



Fiscal Year	FY 2003	FY 2002	FY 2001
Total Returns Filed	14,077	14,997	14,940

Detail of FY 2002 Filing Activity

Entity Type	Original	Amended	NOL*	Incomplete	Total
Subchapter C	6,089	655	377	449	7,570
Subchapter S	5,815	37	3	0	5,855
Exempt	138	7	7	0	152
Homeowners Assoc.	437	1	0	0	438
Oil & Gas	23	39	0	0	62
Total	12,502	739	387	449	14,077

*Net operating loss carryback

Table 5
Corporation Tax Liabilities Statistics

Tax liabilities reported on original returns filed in FY03

<u>Tax Liability Reported</u>	Oil and Gas Corporations			Other than Oil and Gas Corporations			All Corporations		
	<u># Filers</u>	<u>Amount</u>	<u>% Total</u>	<u># Filers</u>	<u>Amount</u>	<u>% Total</u>	<u># Filers</u>	<u>Amount</u>	<u>% Total</u>
Above \$1 million	6	\$212,799,442	98.45%	7	\$15,860,374	37.54%	13	\$228,659,816	88.49%
\$500,000 - \$1 million	4	2,626,401	1.22%	9	6,167,428	14.60%	13	\$8,793,829	3.40%
\$100,000 - \$499,999	3	647,462	0.30%	46	11,207,643	26.53%	49	\$11,855,105	4.59%
\$50,000 - \$99,999	1	70,863	0.03%	46	3,216,772	7.61%	47	\$3,287,635	1.27%
\$10,000 - \$49,999	0	0	0.00%	171	4,094,816	9.69%	171	\$4,094,816	1.58%
\$1,000 - \$9,999	1	1,725	0.00%	417	1,445,887	3.42%	418	\$1,447,612	0.56%
\$100 - \$999	1	219	0.00%	560	226,925	0.54%	561	\$227,144	0.09%
\$1 - \$99	1	38	0.00%	904	26,515	0.06%	905	\$26,553	0.01%
Zero Tax	6	0	0.00%	10,319	0	0.00%	10,325	\$0	0.00%
Total	23	\$216,146,150	100.00%	12,479	\$42,246,360	100.00%	12,502	\$258,392,510	100.00%

Note: Amounts reflect tax liabilities reported on the taxpayer original returns. Liabilities may differ from amounts remitted by the taxpayer during the fiscal year due to timing differences resulting from estimated tax payments, credits and final payment of taxes reported.

DIVE FISHERY MANAGEMENT ASSESSMENT TAX

AS 43.76.150

Description

Alaska levies the dive fishery management assessment on the value of fisheries resources taken using dive gear. The assessment only applies in the management areas, on the species, and at the rate elected by a vote of eligible permit holders.

Rate

Southeast Alaska region commercial dive fishers elected the following rates for the Southeast Alaska administrative area (Management Area A):

Geoduck	5%
Sea Cucumber	5%
Sea Urchin	7%

Returns

Returns are filed quarterly and are due on or before the last day of the month following the calendar quarter during which the fisheries resource was sold or exported.

Disposition of Revenue

The Division deposits all revenue derived from the dive fishery management assessment into the General Fund.

Under AS 43.76.200, the legislature may appropriate dive fishery management assessment revenue to the Department of Fish and Game for the purpose of funding the regional dive fishery development association.

History

1997 – The legislature enacted the dive fishery management assessment statute effective June 21, 1997.

1999 – The Southeast Regional Dive Fishery Association elects a dive fishery management assessment on geoducks, sea cucumbers and sea urchins harvested in the Southeast Alaska administrative area (Management Area A). The assessment is effective on April 1, 1999 at the rate of 5% for geoduck and sea cucumber and 7% for sea urchin.

FY 2003 Statistics

Tax Collections	\$204,738
Number of Returns	29
Number of Taxpayers	14
Program Cost	\$4,391
Staffing (<i>full time equivalent</i>)	0.1

ELECTRIC COOPERATIVE TAX

AS 10.25.555

Description

Alaska bases the electric cooperative tax on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10. The Division collects the tax from the cooperatives.

Rate

Alaska bases the electric cooperative tax on a mill rate depending on the length of time in which the cooperative has furnished electricity to consumers as follows:

<i>Length</i>	<i>Rate Per kWh</i>
Less than 5 years	.25 mill
5 years or longer	.5 mill (1 mill = .1¢)

Returns

Electric cooperatives file calendar year returns that are due with payment before March 1 of the following year.

Exemptions

All electric cooperatives are subject to the cooperative tax. Taxpayers pay the electric cooperative tax in lieu of corporation income taxes.

Disposition of Revenue

The Division deposits all revenue derived from electric cooperative taxes into the General Fund. Electric cooperative taxes sourced from within municipalities are shared 100% to respective municipalities less the amount expended by the state in their collection. The State retains electric cooperative taxes sourced from outside of municipalities.

History

The electric cooperative tax dates back to 1959 when the first Alaska legislature enacted the "Electric and Telephone Cooperative Act" to promote cooperatives around the state. The original electric cooperative tax was based on gross revenue and due by April 1 of the following year. Alaska based the tax rate on the length of time the cooperative had provided electricity to consumers.

1960 – The legislature changed the due date for paying taxes to March 1.

1980 – The legislature changed the tax base for calculating the electric cooperative tax from gross revenue to kilowatt-hours. The legislature adopted the current mill rates.

FY 2003 Statistics

Tax Collections	\$1,817,958
Number of Returns	20
Number of Taxpayers	18
Program Cost	\$3,078
Staffing (<i>full time equivalent</i>)	0.1

ESTATE TAX

AS 43.31

Description

Alaska currently levies the estate tax on the transfer of an estate upon death.

Rate

The Alaska estate tax is the amount of state credit allowed on the estate's federal tax return.

Returns

Estates file returns and pay taxes within 15 months from the decedent's date of death.

The tax due date may be extended in one-year increments, not to exceed 5 years. Interest accrues on the amount of tax due during the extension period. The return due date may be extended for up to 15 years.

Exemptions

Estates under \$675,000 in 2001 (\$1 million in 2002) are generally exempt from paying estate taxes taking into consideration the estate tax credit (formerly the unified credit) allowed under the Internal Revenue Code.

Disposition of Revenue

The Division deposits all revenue derived from estate taxes into the General Fund.

History

The estate tax dates back to 1919 when the territorial legislature adopted a tax on inheritances and transfers of property from estates. Tax rates varied from 1% to 17.5% of the property's value.

1970 - The Alaska legislature enacted the current estate tax statutes. Estate tax statutes tie to the state credit allowed under Internal Revenue Code estate tax laws.

2001 – The federal Economic Growth and Tax Relief Reconciliation Act enacted. As a consequence of this federal act, the state tax credit is being phased out gradually over a four year period beginning in 2002.

FY 2003 Statistics

Tax Collections	\$1,221,757
Number of Returns	45
Number of Taxpayers	40
Number of Death Certificates Issued	731
Program Cost	\$18,435
Staffing (<i>full time equivalent</i>)	0.3

FISHERIES BUSINESS TAX

AS 43.75

Description

Alaska levies the fisheries business tax on fisheries businesses and persons who process or export fisheries resources from Alaska. Alaska bases the tax on the fisheries value paid to commercial fishers or fair market value when there is no arms length transaction. The Division collects fisheries business taxes primarily from licensed processors and persons who export unprocessed fish from Alaska.

Rate

Fisheries business tax rates are based on processing activity, whether in or outside of the state, and whether a fishery resource is classified as "established" or "developing" by the Alaska Department of Fish and Game. Rates are as follows:

Processing Activity

<i>Established</i>	<i>Rate</i>
Floating	5 %
Salmon Cannery	4.5 %
Shore-based	3 %
<i>Developing</i>	<i>Rate</i>
Floating	3 %
Shore-based	1 %

Returns

Fisheries businesses file calendar year returns that are due with payment on March 31 of the following year.

After filing the calendar year return, taxpayers file returns to report post-season, bonus, payments made to fishers. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Commercial fishers who process and freeze fish on board to maintain its quality before sale to a licensed processor are exempt.

Credits

Education Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions Taxpayers who make contributions to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contributions not to exceed 5% of their tax liability.

Alaska Veterans' Memorial Endowment. This bill provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. Taxpayers may not use a contribution claimed as a credit more than one tax type. Also, when combined with credits for contributions to qualifying educational institutions, credits may not exceed \$150,000. These credits cannot exceed 50% of a taxpayer's tax liability.

Salmon Product Development/Utilization Credit (2003) Allows tax credits against the fisheries business tax to encourage the development of salmon products and the utilization of salmon waste. Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005.

Disposition of Revenue

The Division deposits all revenue derived from the fisheries business tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as follows:

Processing Activity Inside Municipality

For taxes sourced from processing activities within an incorporated city or an organized borough, the Division shares 50% of the taxes with the incorporated city or organized borough in which the processing took place. If an incorporated city is within an organized borough, the Division divides the 50% shared amount equally between the incorporated city and the organized borough.

Processing Activity Outside Municipality

For taxes sourced from processing activities outside an incorporated city or an organized borough, 50% of the taxes are shared through an allocation program administered by the Alaska Department of Community and Economic Development.

FISHERIES BUSINESS TAX

History

The fisheries business tax is the oldest tax in Alaska. In 1899, the U.S. Congress adopted a "salmon case" tax to fund fisheries-related activities in pre-territorial Alaska.

The Organic Act passed in 1912 establishing an organized territorial government in Alaska. The First Territorial Legislature adopted fisheries taxes in 1913 as follows: "salmon pack" tax which applied to salmon canneries based on canned salmon (7¢ per case); and "cold storage" tax which applied to other fisheries and was based on business receipts. Over the years between 1913 and 1949, the legislature amended the tax several times by changing tax rates and expanding the tax base to include different fisheries.

1949 – The territorial legislature restructured the fisheries business tax to be based on value of the fisheries rather than volumes, i.e. per case or business receipts. The new "raw fish" tax applied to canneries only (salmon 4%, crab and clams 2%, and other 1% of value).

1951 – The territorial legislature enacted a tax on floating processors at 4% of value. The legislature increased the tax rate for salmon canneries to 6%. Also, the legislature enacted licensing requirements for fisheries businesses. The legislature established a license fee at \$25.

1962 – The legislature adopted provisions for sharing taxes (10%) and requiring calendar year returns for all businesses.

1967 – The tax rate on salmon canneries was amended to 3% and provisions for security as part of licensing was adopted.

1979 – The legislature adopted the modern tax structure with different tax rates for established and developing species. Also the legislature increased the shared tax percentage to 20%.

1981 – The shared tax percentage was increased to 50%.

1986 – The legislature authorized the fisheries business tax credit program which provided for a tax

credit of up to 50% of fisheries business taxes due. Under the credit program, the legislature allowed processors a tax credit for capital expenditures associated with constructing and improving shore-side processing operations. The tax credit program was effective for tax years 1987 through 1989 with a carryforward provision through 1991. Taxpayers claimed approximately \$47.5 million of credits under this program. Also, in 1986 the legislature enacted the Winn Brindle scholarship credit and allowed a credit of up to 5% of fisheries business taxes due.

1987 – The legislature enacted the Alaska education tax credit program allowing for a tax credit up to \$100,000 against fisheries business taxes due.

1990 – The legislature enacted provisions for a civil penalty (up to \$5,000 for each infraction) for processing without a license. The Division may assess penalties progressively in increments of up to \$5,000 up to a maximum of \$25,000 for the fifth and subsequent assessments. Also in 1990, the legislature enacted a provision that authorized sharing 50% of taxes sourced from processing activities in the unorganized borough. This program took effect July 1, 1992.

1991 – The legislature restructured the Alaska education credit and increased the maximum amount to \$150,000.

1993 – Under executive order effective July 1, 1993, the Governor transferred the fish processor surety bonding program Department of Labor to Department of Revenue.

1995 – The legislature reduced the amount of surety bonding for small processors from \$10,000 to \$2,000.

2001 – The legislature modified the tax payment security requirements necessary to obtain a state fisheries business tax license. The legislature expanded the existing requirement for a whole-salmon exporter to include any exporter of any unprocessed fisheries resource. Under the bill, exporters of unprocessed fish can obtain a fisheries business license by posting a \$50,000 surety bond. Additionally, the bill requires quarterly payment of estimated fishery resource landing taxes.

FISHERIES BUSINESS TAX

2002 – Alaska Veterans’ Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans’ Memorial Endowment Fund. The tax credit provisions will sunset on July 1, 2003.

2003 - Salmon Product Development/Utilization Credit allows tax credits against the fisheries business tax to encourage the development of salmon products and the utilization of salmon waste. The amount of the tax credit cannot exceed 50% of the taxpayer’s fisheries business liability for processing of salmon during the tax year.

Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005. Unused credits earned may be carried forward for three years.

2003 – Payment of the Fisheries Business Tax allows for monthly payment of the fisheries taxes in lieu of existing forms of security or prepayment as a prerequisite to licensure. Fisheries businesses who elect this option must post a \$50,000 bond or demonstrate \$100,000 equity in real property within the state. Effective September 8, 2003.

FY 2003 Statistics

Fisheries License and Business Tax	
License Fees and Tax Collection	\$26,002,713
<i>Including penalties and interest.</i>	
<i>Less Win Brindle Credit and Alaska</i>	
<i>Education Credit.</i>	
Number of Returns	560
Number of Taxpayers	393
Fisheries Business License Information	
Shore-based License Issued	174
Floating License Issued	349
Exporter License Issued	89
Total Licenses Issued	612
Program Cost	\$556,023
Staffing (<i>full time equivalent</i>)	8.8

FISHERY RESOURCE LANDING TAX

AS 43.77

Description

Alaska levies the fishery resource landing tax on processed fishery resources first landed in Alaska. Alaska bases the tax on the unprocessed value of the resource. The unprocessed value is determined by multiplying a statewide average price per pound by the unprocessed weight. This information is derived from Alaska Department of Fish and Game data.

Alaska collects the fishery resource landing taxes primarily from factory trawlers and floating processors which process fishery resources outside of the state's 3-mile limit and bring their products into Alaska for transshipment.

Rate

Tax rates are based on whether the resource is classified as "established" or "developing" by the Alaska Department of Fish and Game and are as follows:

<i>Classification</i>	<i>Rate</i>
Established	3%
Developing	1%

Returns

Taxpayers file returns and pay tax on a calendar year basis with a due date of March 31 of the following year. Taxpayers generally make quarterly estimated tax payments which are due on the last day of each calendar quarter.

The Division grants an automatic extension to file the landing return if it does not provide statewide average prices to taxpayers at least 30 days prior to the due date. If the extension applies, the due date is the last day of the month following the month in which the Division issues statewide average prices. The Division extended the due date for calendar year 2001 returns to June 30, 2002.

Exemptions

Unprocessed fishery resources landed in the state are exempt from the fishery resource landing tax, although they may be subject to the fisheries business tax.

Credits

Education - Taxpayers who make contributions for educational purposes to Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions - Taxpayers who make contributions to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contributions not to exceed 5% of their tax liability.

CDQ - Taxpayers who harvest a fishery resource under a community development quota (CDQ) may claim a credit of up to 45.45% of fishery resource landing taxes for contributions to Alaska nonprofit corporations that are dedicated to fisheries industry-related expenditures.

Alaska Veterans' Memorial Endowment - This credit provides up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. These credits cannot exceed 50% of a taxpayer's tax liability. When combined with credits for contributions to qualifying educational institutions, credits may not exceed \$150,000.

Other Taxes - Taxes paid to another jurisdiction on fishery resources may be claimed as a credit against the fishery resource landing tax. The credit, equal to the amount of taxes paid in the other jurisdiction, may not exceed the fishery resource landing tax.

Disposition of Revenue

The Division deposits all revenue from the fishery resource landing tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as follows.

Landings Inside Municipality

For taxes sourced from landings within a municipality, the Division shares 50% of taxes (3% portion) with the respective municipalities in which landings occurred. If a municipality is within a borough, the Division divides the 50% shared amount between the municipality and borough.

FISHERY RESOURCE LANDING TAX

Landings Outside Municipality

For taxes sourced from landings outside a municipality (unorganized borough), 50% of the taxes are shared through an allocation program administered by the Alaska Department of Community and Regional Affairs.

History

The legislature enacted the fishery resource landing tax in 1993. The tax became effective January 1, 1994. Department of Revenue adopted regulations regarding administration of the tax that took effect April 20, 1994.

1994 – The American Factory Trawler Association (AFTA) filed litigation challenging the constitutionality of the landing tax.

1995 – The Alaska Supreme Court rejected AFTA's request based on AFTA's failure to exhaust administrative remedies with the Department of Revenue.

1996 – The landing tax was restructured to mirror the structure of the fisheries business tax program. The legislature revised the tax rate to 3% for established species and 1% for developing species. The 0.3% portion of the previous 3.3% tax rate was broken out and incorporated into seafood marketing assessment statutes. Also in 1996, the legislature amended the landing tax statutes to provide for tax credits for education and Winn Brindle scholarship contributions. All changes were retroactive to January 1, 1994, the inception date of the landing tax.

1997 – AFTA dismissed its challenge to the landing tax. In June 1997, the state issued a formal hearing decision upholding the constitutionality of the tax. Shared tax amounts from calendar year 1994 and 1995 returns, previously held in escrow by municipalities, were released to municipalities.

1999 – The American Fisheries Act (P.L. 105-277) required a fishery cooperative to execute a contract with each cooperative member that obligated the member to make a payment to the state for pollock harvested in the Alaska pollock fishery that is not landed in Alaska. AS 43.77.015 required that those payments be treated as if they were landing taxes.

2001 – HB154 requires quarterly payment of estimated fishery resource landing taxes.

2002 – Alaska Veterans' Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit provisions will sunset on July 1, 2003.

FY 2003 Statistics

Tax Collections	\$9,876,465
<i>Including penalties, interest and refunds</i>	
<i>Less CDQ contributions, Winn Brindle</i>	
<i>Credit and Alaska Education Credit</i>	
Number of Returns	97
Number of Taxpayers	60
 Program Cost	 \$38,575
Staffing (<i>full time equivalent</i>)	0.7

MINING LICENSE TAX

AS 43.65

Description

The mining license tax is levied on mining net income and royalties received in connection with mining properties and activities in Alaska. The Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

Rate

<i>Mining Net Income</i>	<i>Rate</i>
\$0 - 40,000	No Tax
\$40,001 - \$50,000	\$1,200 plus 3% over \$40,000
\$50,001 - \$100,000	\$1,500 plus 5% over \$50,000
Over \$100,000	\$4,000 plus 7% over \$100,000

Returns

Mining licensees file annual returns based on the mining business' fiscal year. Calendar year returns and payment of tax are due April 30; fiscal year returns and payment are due before the first day of the fifth month after the close of the fiscal year.

Exemptions

Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the credit is approved. Application of the credit is limited to 50% of the lesser of the person's mining license tax liability related to the mining operation or 50% of the person's total mining license tax liability.

Alaska Veterans' Memorial Endowment - This credit provides up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. These credits cannot exceed

50% of a taxpayer's tax liability. When combined with credits for contributions to qualifying educational institutions, credits may not exceed \$150,000.

Special Industrial Incentive Investment - Taxpayers may claim a credit for investment in gas processing and mining projects in Alaska. Taxpayers calculate the credit as a percentage, from 40% to 100%, of allowable federal investment tax credit and limit the credit to 60% of the Alaska tax. The credit may not be carried forward to tax years beginning after December 31, 1999 (see AS 43.20.042).

Disposition of Revenue

The Division deposits all revenue derived from the mining license tax into the General Fund with the exception of payments received after a tax assessment. The Division deposits these amounts into the Constitutional Budget Reserve Fund (CBRF).

History

The mining license tax dates back to 1913 and the legislature restructured it several times over the years. The original mining license tax, enacted in 1913, imposed a 0.5% tax on mining net income over \$5,000. There was no tax on net income less than \$5,000.

1915 - The territorial legislature increased the tax rate to 1%. The tax-free net income base remained at \$5,000.

1927 - The tax-free net income base was increased to \$10,000 and a three-tier tax rate structure was adopted with rates ranging from 1% to 1.75% for net income over \$1 million.

1935 - The territorial legislature restructured the tax to an eight-tier tax structure with rates ranging from 0.75% to 4% for net income over \$1 million. The legislature decreased tax-free net income to \$5,000.

1937 - The tax-free net income base was eliminated and all net income was subject to tax. A nine-tier tax structure as adopted with tax rates ranging from 0.75% to 8% for net income over \$1 million.

1947 - The mining license tax was restructured by reinstating the tax-free net income base (\$1,000) and restructuring the tax rates to a five-tier structure with rates ranging from 4% to 8% for net income over \$100,000.

MINING LICENSE TAX

1951 – The 3½ year exemption was enacted whereby new mining operations are exempt from mining tax for a period of 3½ years from the date of production.

1953 – The tax-free net income base was increased to \$10,000 and rates changed to range from 3% to 7% for net income over \$100,000.

1955 – The rate structure as it exists today was adopted.

1987 – The Alaska education tax credit program was enacted allowing for a tax credit up to \$100,000.

1991 – The Alaska education credit was restructured and the maximum amount was increased to \$150,000.

1995 – The legislature authorized the minerals exploration incentive credit. The credit is limited to \$20 million and taxpayers may apply the credit against 50% of mining license liabilities over a 15-year period.

2002 – Alaska Veterans' Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit provisions will sunset on July 1, 2003.

FY 2003 Statistics

Tax Collections	
General Fund (GF)	\$351,387
<i>Less AK Special Interest Incentive, Mineral Exploration Incentive and AK Education Credits</i>	
CBRF	44,867
Total of GF and CBRF	\$396,254
Number of Returns	190
Number of Taxpayers	176
Program Cost	\$16,712
Staffing (<i>full time equivalent</i>)	0.3

MOTOR FUEL TAX

AS 43.40

Description

Alaska levies the motor fuel tax on motor fuel sold, transferred or used within Alaska. The Division collects motor fuel taxes primarily from wholesalers and distributors who hold "qualified dealers" licenses from the Division.

Rate

	<i>Per Gallon Rate</i>
Highway	8¢
Marine	5¢
Aviation Gasoline	4.7¢
Jet Fuel	3.2¢
Gasohol*	8¢ / 2¢

**2¢ tax applies only in areas and during the period when gasohol is required to be sold.. Otherwise, tax is 8¢ per gallon.*

Through the 2002-2003 winter, gasohol was required for the months November through February in the Anchorage area. *Until further notice from Department. of Environmental Conservation, gasohol will no longer be required in Anchorage.*

Returns

Taxpayers file returns and make payment monthly. The due date is the last day of the month following the month of sale or taxable use. Taxpayers can deduct 1% of the tax due, limited to a maximum of \$100 per return, to cover expenses of accounting and filing returns.

Refunds

Consumers may claim a refund for the full tax rate if the consumer used the fuel for exempt purposes; or for the difference between the tax rate and 2¢ per gallon if the consumer used the fuel off-highway.

Resellers, usually retailers, may claim a refund for the full tax if the reseller paid the tax, and then sold the fuel for exempt use and did not collect the tax.

Exemptions

In addition to sales between qualified dealers, the following sales and use are exempt from motor fuel tax:

- Heating*
- Federal and state agencies*
- Foreign flights (jet fuel)*
- Exports*
- Power plants/utilities*

Charitable institutions

Gasohol (only fuel blended with alcohol derived from wood or seafood waste)

Disposition of Revenue

The Division deposits nearly all revenue derived from motor fuel taxes into the General Fund. The Division's tax accounting system accounts for revenue from each category separately.

The Division shares with the respective municipalities sixty percent of taxes attributable to aviation fuel sales at municipally owned or operated airports. Because Anchorage and Fairbanks international airports are the sites of most aviation fuel sales, the Division shares only a small portion of aviation fuel tax with municipalities.

History

The motor fuel tax dates back to 1945 when the legislature imposed a tax of 1¢ per gallon on all motor fuel. Over time, the legislature enacted separate tax rates for each of the fuel categories as they exist today. Motor fuel tax rates have changed as follows:

<i>Highway</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	5¢
1960	7¢
1961	8¢
1964	7¢
1970	8¢

<i>Gasohol</i>	<i>Per Gallon</i>
1997	8¢/2¢
<i>(2¢ November through February)</i>	

<i>Marine</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	5¢
1957	2¢
1960	3¢
1971	4¢
1977	5¢

MOTOR FUEL TAX

<i>Aviation Gasoline</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	3¢
1968	4¢
1994	4.7¢

<i>Jet Fuel</i>	<i>Per Gallon</i>
1957	1.5¢
1968	2.5¢
1994	3.2¢

1994 – The legislature enacted a tax decrease for bunker fuel. Tax rate decreases from 5¢ to 1¢ per gallon on bunker fuel sales exceeding 4.1 million gallons. This tax decrease sunsetted on June 30, 1998.

1997 – The gasohol exemption was repealed. The legislature enacted a provision that reduces the tax on gasohol from 8¢ to 2¢ per gallon for areas and times when federal law mandates the use of gasohol. However, gasohol that is blended with at least 10% alcohol derived from wood or seafood wastes is fully exempt, in certain circumstances.

Also, the legislature expanded the foreign flight exemption to include flights originating from foreign countries in addition to the existing exemption for flights with a foreign destination. This legislation included a permanent exemption for bunker fuel (residual fuel oil known as #6 fuel oil) which nullified the 1994 bunker fuel tax rate reduction.

1998 – Bad debt credit. The legislature authorized taxpayers to take a credit for sales deemed to be worthless and for sales to persons who file bankruptcy.

2003 – Motor Fuel Tax: Government Agency Refunds. This bill makes it easier for the state to issue motor fuel excise tax refunds for credit card purchases made by federal state and municipal agencies.

FY 2003 Statistics

Tax Collections	\$37,352,972
<i>Including penalties and interest</i>	
Number of Returns	3,587
Number of Taxpayers	254
 Program Cost	 \$309,373
Staffing (<i>full time equivalent</i>)	4.5

OIL AND GAS EXPLORATION, PRODUCTION AND PIPELINE TRANSPORTATION PROPERTY TAXES

AS 43.56

Description

Each year Alaska levies the oil and gas property tax on the value of taxable exploration, production, and pipeline transportation property located within the state. The Division has established procedures for the three distinct classes of property.

Exploration Property is valued at the estimated price which the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels.

Production Property value is determined on the basis of replacement cost of similar new property, less depreciation based on the economic life of the proven reserves.

Pipeline Transportation Property is generally valued based on its economic value relative to the reserves feeding into the pipeline.

Rate

The State tax rate is 20 mills, or 2%, of the assessed value.

Returns

Taxpayers file annual returns reporting taxable property as of January 1 of the assessment year. Returns are due on or before January 15. Payment is due on or before June 30.

Exemptions

Oil and gas reserves, oil or gas leases, and the lease or rights to explore or produce oil or gas are exempt, as are intangible drilling and exploration expenditures. Certain aircraft, motor vehicles, communication facilities, and buildings may be exempt even though they are associated with oil or gas exploration, production, or pipeline transportation. Oil or gas pipeline transportation systems owned and operated by a public utility are exempt.

Credits

Municipal property taxes paid. Taxpayers receive a credit against state oil and gas property tax for property taxes paid to municipalities on taxable property. The credit is limited to the amount of state tax otherwise due.

Oil or Gas Property Education Credit. Taxpayers who make contributions for educational purposes to Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Alaska Veterans' Memorial Endowment – This credit provides up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. These credits cannot exceed 50 percent of a taxpayer's tax liability. When combined with credits for contributions to qualifying educational institutions, credits may not exceed \$150,000. The tax credit provisions sunset on July 1, 2003.

Disposition of Revenue

The Division deposits in the General Fund all net revenue derived from oil and gas property taxes except as noted below.

The Division deposits revenues received pursuant to a resolution of a dispute with taxpayers into the CBRF.

History

The legislature enacted this tax in 1973 during the first special session of the eighth legislature. The State assists local governments by assessing property subject to the tax, insuring uniform treatment of all taxable property.

See following page for statistics.

**OIL AND GAS EXPLORATION, PRODUCTION AND
PIPELINE TRANSPORTATION PROPERTY TAXES**

FY 2003 Statistics

Property Tax Billed	\$268,844,716
CBRF	(\$2,929)
Less Municipal Tax Credit	<u>(\$220,096,442)</u>
Net Tax Due to State	\$48,745,345
 Number of Returns	 91
Number of Taxpayers	86
 Program Costs	 \$430,567
Staffing (<i>full time equivalent</i>)	3.2

OIL AND GAS PRODUCTION TAX

AS 43.55

Description

Alaska imposes the production tax on all oil and gas produced in Alaska. Conservation Surcharge on Oil (AS 43.55) and Oil and Gas Production Tax are severance taxes.

Rate

The rate of taxation for oil varies depending on the vintage of the field and is further subject to the economic limit factor (ELF). The ELF varies depending on field size and well productivity.

The severance tax rate on oil is 12.25% of production value as determined at the point of production, for the first 5 years of production and 15% thereafter. There is a minimum tax of \$0.80/bbl.

Both the percent of value and the cents per barrel tax rates are subject to the ELF. The effective tax rate is the appropriate tax rate multiplied by the ELF.

The ELF formula results in lower tax rates for smaller, low productive fields and higher tax rates for larger highly productive fields. The formula is difficult to characterize in a simple way because it is based on a fraction that is calculated using fractional exponents and is unique for every combination of field size and well productivity. A field that produces 300 bbl/day per well or less has an ELF of zero i.e. no severance taxes are assessed.

In Fiscal Year 2003, six of Alaska's North Slope 24 producing fields had an ELF higher than 0.1:

<i>Field</i>	<i>ELF</i>	<i>Tax Rate</i>
Prudhoe	.8701	13.05 %
North Star	.8641	10.59 %
Alpine	.8570	10.50 %
Kuparuk	.2291	3.44 %
Pt. McIntyre	.1603	2.40 %
Borealis	.1140	1.40 %
Tarn	.0996	1.22 %
Midnight Sun	.0085	0.10 %
Niakuk	.0011	0.02 %
Milne Point	.00003	0.00 %

The 5 largest fields account for 95% of all production tax revenues.

The severance tax rate on gas is 10% of production value. There is a minimum tax of \$0.064/mcf. The gas severance tax rate is also subject to an ELF based on daily gas production per well.

Returns

Returns are filed monthly and due with payment of taxes on or before the 20th day of the month following the month of production.

Exemptions

The tax is levied on all production except for public (government) royalty production.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Oil and Gas Exploration Incentive - Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of oil and gas exploration costs approved by the commissioner of Natural Resources. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of oil and gas production taxes.

Exploration - Explorers may take a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it can be carried forward month to month until fully applied or sold to another taxpayer.

To qualify the work must have been performed between July 1, 2003 and July 1, 2007. However the credits cannot be applied until after July 1, 2004 (i.e. in FY 2005).

OIL AND GAS PRODUCTION TAX

Disposition of Revenue

All revenue derived from the Oil and Gas Production Tax is deposited in the General Fund except that payments received as a consequence of an assessment are deposited in the Constitutional Budget Reserve Fund (CBRF).

History

1955 – The legislature enacts an oil and gas production tax of 1% of production value.

1967 – A 1% disaster production tax is enacted to provide relief after the Fairbanks flood.

1968 – The legislature increases oil and gas production tax from 1% to 3% of production value.

1970 – The legislature repeals the disaster oil and gas production tax. The legislature changes the oil production tax to a graduated tax with rates of 3% on the first 300 barrels per day per well, 5% on the next 700 barrels per day per well, 6% on the next 1500 barrels per day and 8% on production exceeding 2500 barrels per day per well.

1972 – The legislature establishes a minimum oil production tax based on “cents per barrel” equivalent to percent of value tax on oil with wellhead value of \$2.65 per barrel.

1973 – The legislature revises the “stairstep” rate schedule to lower production levels. The legislature indexes the cents per barrel minimum to the wholesale price index for crude oil published by the US Bureau of Labor Statistics.

1977 – The legislature raises the nominal gas production tax rate to 10%. The legislature raises the nominal oil production tax rate to 12.25% and adopts the oil and gas economic limit factors.

1981 – As part of legislation that repealed the separate accounting oil and gas corporation income tax, the nominal tax rate on oil produced prior to 1981 was raised to 15% and fields coming into production after 1981 are taxed at 12.25% for five years after which the rate increases to 15%. The oil economic limit factor is now subject to a rounding rule so that if the calculated factor is greater than or equal to 0.7 during the first 10 years of production, the factor is set to 1.0.

1989 – The legislature changes the economic limit factor for oil production taxes to include a field size factor in the formula, fixes the production at the economic limit (not rebuttable) at 300 barrels per well per day, and drops the “rounding” rule. The legislature fixes production at the economic limit for gas production at 3000 mcf per well per day.

2002 - Alaska Veterans’ Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans’ Memorial Endowment Fund. The tax credit provisions sunset on July 1, 2003.

FY 2003 Statistics

Tax Collections - Production Tax only	
General Fund	\$589,731,934
CBRF	\$3,681,970
Total of GF and CBRF	\$593,413,904

Number of Returns	2,256
Number of Taxpayers	13

Severance Taxes*	
Program Cost	\$1,874,482
Staffing (<i>full time equivalent</i>)	23.1

* The Oil and Gas Production Tax is reported on the same return and by the same taxpayers as Alaska’s other production tax, Conservation Surcharge on Oil (AS 43.55). We have not segregated program cost and staffing related to each individual tax. Production tax program cost and staffing represent the resources committed to both levies.

OIL AND GAS ROYALTY AND NET PROFIT SHARE AUDITING

AS 38.05

Description

Most Alaska oil and gas production occurs on lands leased by the state for exploration and development of oil and gas resources. As the land owner, the state earns revenue from leasing state-owned land in the form of a royalty or net profit share. Generally the leasing functions fall under the purview of the Department of Natural Resources.

AS 38.05.036 requires that the Department of Revenue conduct audits for the Department of Natural Resources of "reports, payments, and payments due relating to royalty and net profits under oil and gas contracts, agreements, or leases". All information obtained in the audits is made available to DNR.

Rate

The royalty rate is normally 12.5%. However, individual leases can carry rates as high as 33 $\frac{1}{3}$ %.

Returns

Returns are filed monthly and due with payment of royalties on the last day of the month following the month of production.

History

This audit function had been delegated to the Department of Revenue since 1980. As of July 1, 2003, this function was transferred back to Department of Natural Resources.

REGULATORY COST CHARGES

AS 43.05.253 / AS 42.06.285

Description

Regulatory cost charges are user fees levied on utilities to fund the Regulatory Commission of Alaska's (RCA) costs of regulating utilities and pipeline carriers in Alaska. Regulated utilities pass charges on to consumers, collect, and remit the charges to the Division.

Rate

For FY 03, the following rates applied:

Electric Utilities	\$.00036/kWh
<i>The following are based on a percentage of total revenues</i>	
Telephone Utilities	
Local Exchange	0.939 %
Interexchange	1.023 %
Pipeline Carriers	0.795 %
Natural Gas Utilities	0.437 %
Refuse Utilities	1.695 %
Water and Wastewater Utilities	0.364 %
Cable Utilities	2.813 %
District Heat Utilities	1.681 %

Rates are effective October 1 through September 30 and are based on the costs the RCA incurs when working on matters that pertain to a specific utility or pipeline carrier.

Returns

Quarterly returns and payment of RCCs are due on the 30th day following the calendar quarter. Utilities and carriers are required to file a copy of their returns with RCA.

Exemptions

Utilities not regulated by RCA are exempt from the RCC program.

Disposition of Revenue

The Division deposits all revenue derived from the RCC program into the General Fund. The legislature may make appropriations from the General Fund to fund RCA based on regulatory cost charges collected.

History

The Alaska legislature enacted the RCC program in 1992 to cover RCA's costs of regulating utilities. The RCC legislation provided for a sunset date of December 31, 1994. Rates went into effect through regulations, which became effective November 1, 1992.

1994 – The RCC program sunsetted December 31, 1994, as provided under the 1992 legislation that authorized the regulatory cost charges.

In the fall of 1994, RCA promulgated regulations which established RCC rates for FY 95 on an annualized basis. The regulations took effect December 1, 1994.

1995 – The legislature reauthorized the RCC program which became effective June 26, 1995. Effective October 1, 1995, RCA adopted regulations to reestablish quarterly payments.

1999 – The legislature required that separate RCC rates be calculated for each regulated utility and changed the methodology for calculating rates.

FY 2003 Statistics

Total RCC Collections	\$5,839,379
<i>Electric, Telephone, Pipeline Carriers and other utilities</i>	
Number of Returns	522
Number of Taxpayers	119
Program Cost	\$16,247
Staffing (<i>full time equivalent</i>)	0.3

SALMON ENHANCEMENT TAX

AS 43.76

Description

The salmon enhancement tax is an elective tax levied on salmon sold in or exported from established aquaculture regions in Alaska. Commercial fishers in each region elect to pay a 2% or 3% tax based on the value of salmon sold in or exported from that region.

Fishers pay salmon enhancement taxes to processors at the time of sale or to the Division for salmon exported from the region. Processors remit taxes collected from fishers to the Division.

Rate

Commercial fishers elected tax rates for the following regional aquaculture associations:

<i>Region</i>	<i>Rate</i>	<i>Effective</i>
Southern Southeast	3 %	1981
Northern Southeast	3 %	1981
Cook Inlet	2 %	1981
Prince William Sound	2 %	1985
Kodiak	2 %	1988
Chignik	2 %	1991

Returns

Processors file returns and pay tax monthly. The due date is the last day of the month following the month of purchase or export.

Processors file returns for payments made to fishers after the close of the fishing season. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) is exempt from the salmon enhancement tax.

Disposition of Revenue

The Division deposits all salmon enhancement tax revenue into the General Fund.

Under AS 43.76.025(c), the legislature may appropriate salmon enhancement tax revenue to provide financing for qualified regional aquaculture associations

History

The legislature adopted the Salmon Enhancement Act in 1980. The Act established statutes authorizing a 2% or 3% tax, upon election by commercial fishers within established aquaculture regions, on salmon transferred to buyers in Alaska. Commercial fishers in Southern and Northern Southeast aquaculture regions elected a 3% tax and Cook Inlet region elected a 2% tax.

1981 – The legislature amended the Act to subject salmon exported from Alaska to the tax.

1985 – Commercial fishers in the Prince William Sound aquaculture region elected a 2% tax.

1989 – The legislature amended statutes to allow for a 1% tax. Commercial fishers in the Kodiak aquaculture region elected a 2% tax.

1991 – Commercial fishers in the Chignik aquaculture region elected a 2% tax.

FY 2003 Statistics

Tax Collections	\$2,422,051
<i>Including interest and penalties</i>	
Number of Returns	871
Number of Taxpayers	186
Program Cost	\$46,501
Staffing (<i>full time equivalent</i>)	0.6

SALMON MARKETING TAX

AS 43.76

Description

Alaska levies the salmon marketing tax on all salmon sold in or exported from Alaska. Commercial fishers pay salmon marketing taxes to processors based on value of the salmon at the time of sale or fair market value when there is no arms length transaction. Taxpayers pay tax directly to the Division for salmon exported from the state. Processors remit taxes collected from fishers to the Division.

Rate

The salmon marketing tax rate is 1% and is based on ex-vessel value of the salmon.

Returns

Taxpayers file returns and pay tax monthly. The due date is the last day of the month following the month of purchases or export.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) are exempt from the salmon marketing tax.

Disposition of Revenue

The Division deposits the salmon marketing tax into the general fund.

Under AS 43.76.120(d), the legislature may appropriate salmon marketing tax revenue to the Alaska Seafood Marketing Institute (ASMI) for the purpose of supporting its salmon marketing program.

History

1993 – The legislature enacted a 1% salmon marketing tax to fund salmon marketing administered by ASMI to sunset June 30, 1998.

1998 – The Legislature extended the sunset date to June 30, 2003.

2002 – The Legislature extended the sunset date to June 30, 2008

FY 2003 Statistics

Tax Collections	\$1,412,041
<i>Including interest and penalties</i>	
Number of Returns	869
Number of Taxpayers	188
 Program Cost	 \$46,501
Staffing (<i>full time equivalent</i>)	0.5

SEAFOOD MARKETING ASSESSMENT

AS 16.51.120

Description

Alaska levies the seafood marketing assessment on seafood products made in Alaska. Alaska also levies the assessment on unprocessed fisheries product exported from Alaska. The Division generally collects the tax from fisheries processors or landing taxpayers.

Rate

The seafood marketing assessment is 0.3% of the value of seafood products produced in Alaska.

Returns

Taxpayers file calendar year returns that are due with payment of the assessment on March 31 of the following year.

Taxpayers file returns for post-season (bonus) payments made to fishermen after the filing of the calendar year return. Returns for these payments are due with additional assessments by the last day of the month following the payments.

Exemptions

Processors and fishermen who produce less than \$50,000 of seafood products during a calendar year are exempt from the assessment.

Disposition of Revenue

The Division deposits all seafood marketing assessments into the general fund.

History

1981 – The legislature enacted an elective seafood marketing assessment of 0.1%, 0.2% or 0.3% (elected by large processors in Alaska). In 1981, processors elected a 0.3% assessment to take effect in calendar year 1982.

1996 – The legislature amended seafood marketing assessment statutes to include fishery resources landed in Alaska. The legislation was retroactive to January 1, 1994.

1994. Prior to FY 96, revenue collected from the 0.3% portion of the original 3.3% landing tax rate was accounted for in a separate account designated as (landing tax) seafood marketing assessments.

FY 2003 Statistics

Assessment Collections	\$2,989,931
Number of Returns	245
Number of Taxpayers	165
Program Cost	\$61,780
Staffing (<i>full time equivalent</i>)	1.0

TELEPHONE COOPERATIVE TAX

AS 10.25.550

Description

Alaska levies the telephone cooperative tax on gross revenue of qualified telephone cooperatives under AS 10. The Division collects taxes from cooperatives.

Rate

The telephone cooperative tax rate is based on the length of time in which the cooperative has furnished telephone service to consumers as follows:

<i>Length</i>	<i>% of Revenue</i>
Less than 5 years	1%
5 years or longer	2%

Returns

Telephone cooperatives file calendar year returns which are due with payment before March 1 of the following year.

Exemptions

All telephone cooperatives are subject to the cooperative tax. Cooperatives pay the telephone cooperative tax instead of corporate net income tax.

Disposition of Revenue

The Division deposits revenue from the telephone cooperative tax into the General Fund.

Telephone cooperative taxes sourced from within municipalities are shared 100% to respective municipalities less the amount expended by the state in their collection.

The state retains telephone cooperative taxes sourced from outside of municipalities.

History

1959 – The Legislature enacted the telephone cooperative tax as part of the "Electric and Telephone Cooperative Act" which was adopted to promote cooperatives around the state. The due date for filing telephone cooperative tax returns was April 1 of the following year.

1960 – The due date for filing returns was changed to March 1.

FY 2003 Statistics

Tax Collections	\$1,836,740
Number of Returns	6
Number of Taxpayers	6
Program Cost	\$4,586
Staffing (<i>full time equivalent</i>)	0.1

TOBACCO TAX

AS 43.50

Description

Alaska levies the tobacco tax on cigarettes and tobacco products sold, imported, or transferred into Alaska. The division collects tobacco taxes primarily from licensed wholesalers, distributors, and retailers

Rate

The tax rate on cigarettes is 50 mills (5 cents) per cigarette, or \$1 per pack of 20 cigarettes.

The tax rate on Other Tobacco Products, which include tobacco products other than cigarettes such as cigars and chewing tobacco, is 75% of wholesale price.

Returns

Taxpayers file returns and pay tax monthly. The due date is the last day of the month following the month of sale, importation, or transfer. Taxpayers deduct 0.4% of the tax due to cover expenses of accounting and filing returns.

Exemptions

Sales to authorized military personnel by a military exchange, commissary, or ship store; and sales by an Indian reservation business located within an Indian reservation to members of the reservation are not subject to the tax.

Disposition of Revenue

The division deposits cigarette tax revenue as follows:

School Fund	38 mills (76%)
General Fund	12 mills (24%)

The Division deposits all tobacco products tax revenue into the General Fund.

The Division deposits all cigarette and tobacco products license fees into the School Fund.

The legislature dedicated all revenue deposited into the School Fund for rehabilitation, construction, repair and associated insurance costs of state school facilities.

History

The tobacco tax dates to 1949 when the legislature enacted a tax of 3 cents per pack on cigarettes and 2 cents per ounce on tobacco. There were no exemptions provided in the tax legislation.

1951 – The legislature increased the cigarette tax to 5 cents per pack.

1955 – The legislature eliminated the tobacco products tax and, although the cigarette tax rate remained at 5 cents, the legislature converted the rate to a mill rate per cigarette (2.5 mills per cigarette). The legislature enacted a 1% deduction provision to cover accounting expenses.

1961 – The legislature increased the cigarette tax to 4 mills per cigarette (8 cents per pack). The legislature dedicated revenue from the additional 3 cents to the General Fund.

1977 – The legislature exempted military sales from the cigarette tax.

1983 – Department of Revenue adopted regulations exempting sales of cigarettes to Indians within an Indian reservation from the cigarette tax.

1985 – The legislature increased the cigarette tax to 8 mills per cigarette (16 cents per pack).

1988 – The legislature enacted the tobacco products tax imposing a tax of 25% of the product wholesale price. The legislature authorized taxpayers to deduct 1% of the tax to cover accounting expenses.

1989 – The legislature increased the cigarette tax rate to 14.5 mills (29 cents per pack of 20).

1997 – Effective October 1, 1997, the legislature increased the cigarette tax rate to 50 mills or \$1 per pack of 20; and the tobacco products tax rate was increased to 75% of wholesale price. The legislature reduced the deduction percentage to cover accounting expenses from 1% to .4%.

2001 – Effective July 1, 2001, the Department of Revenue gained new tools to enforce the nationwide Master Settlement Agreement signed by the major cigarette producers and states. It allows the department to share information with other states and entities that may aid in the enforcement of the agreement. It also prohibits tobacco products licensees from importing and

TOBACCO TAX

selling cigarettes in Alaska made by nonparticipating manufacturers that fail to comply with the agreement.

2003 – Legislation effective June 17, 2003 requires all cigarette manufacturers to certify to the division that they are either a signatory to the tobacco Master Settlement Agreement (MSA) or in compliance with Alaska Statute 45.53. The division is required to post on its website a list of the compliant cigarette manufacturers and their brands. Only those brands of cigarettes included in the list may be sold in Alaska.

Effective January 1, 2004, an Alaska cigarette tax stamp must be affixed to each cigarette pack prior to sale, distribution or consumption. Additionally, the sale of cigarettes at less than cost is prohibited.

FY 2003 Statistics

Tax Collections by Fund

General Fund	\$16,287,785
School Fund	30,606,828
Total Tax Collections by Fund	\$46,894,613

Tax Collections by Product

Cigarettes	\$40,239,153
Other Tobacco Products	6,657,704
Timely Filing Deductions	(63,507)
Penalties & Interest	61,263
Total Collections by Product	\$46,894,613

Cigarettes (*individual cigarettes*) as reported on returns

Taxable Cigarettes	807,186,107
Military and Indian Exempt Sales	4,871,410
Credits for Returns	7,749,165
Total Reported on Tax Returns	819,806,682
Military Sales Not Reported on Tax Returns	24,841,200
Total Cigarettes	844,647,882

Other Tobacco Products (*value*) as reported on returns

Taxable Products	\$8,814,779
Military and Exempt Sales	74,490
Credits for Returns	102,950
Total Other Tobacco Products	\$8,992,219

License Fee Collections	\$5,520
Number of Returns	865
Number of Taxpayers	123

Program Cost	\$315,840
Staffing (<i>full time equivalent</i>)	4.1

AUDIT PROGRAM

Description

In FY03, the Audit unit was comprised of two audit groups differentiated by tax types. Effective FY04, the audit function was reorganized to form a third audit group.

The **income tax audit group** is responsible for corporate income (including oil and gas corporation net income taxes).

The **oil and gas production tax audit group** is responsible for oil and gas production, conservation surcharge and property taxes.

The newly formed **excise tax audit group** is responsible for excise tax audits.

The audit groups with oil and gas responsibilities maintain 100% audit coverage of Alaska largest taxpayers in the oil and gas industry.

FY 2003 Statistics***Audit Income Group (Audit Group 1) - Receipts***

<i>Tax Type</i>	<i>Collections</i>
Corporate Net Income	
Oil and Gas Corp Income	\$17,221,507
Other Corporations	3,659,374
Other Taxes (FY04 transfer to Audit Excise)	114,931
Total	\$20,995,812

Audit Oil and Gas Production Group (Audit Group 2) - Receipts

<i>Tax Type</i>	<i>Collections</i>
Oil and Gas Production Tax	\$3,681,970
Oil and Gas Property	(2,929)
Total	\$3,679,041

Royalty and NPS* **\$1,850,000**

Audit Total* **\$26,524,853**

* Does not include receipts or refunds resulting from litigation.

APPEALS PROGRAM

Description

Appeals staff continued to work independently and in cooperation with the Department of Law to expedite and resolve issues related to audit and compliance actions. While oil and gas cases retained a priority due to the revenue and important issues involved, gaming cases also were a top priority as the Division continued to deal with compliance issues in the gaming industry.

Included within the appeals closed case statistics are formal settlements: cases were settled with 21 taxpayer/gaming groups covering 63 periods with receipts totaling \$18,946,445. Of that amount, \$15,325,534 was deposited into the CBRF.

FY 2003 Statistics

	Tax Periods*	Taxpayer Count
Beginning Inventory	229	65
Plus New Cases	190	79
Less Closed Cases	(263)	(97)
Ending Inventory	156	47

*Tax periods correspond to periodic tax return filing requirements of taxpayers. One taxpayer may have several tax periods in appeals at the same time.

Appendix A

Historical Overview of Tax Programs

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
Alcoholic Beverages	AS 43.60	1933	Wine 5 cents/gallon Beer 5 cents/gallon	Product Current Rate Per Gallon Liquor \$12.80 Wine 2.50 Beer (Malt Beverage) and Cider 1.07 Beer (Small Breweries) 0.35	Effective 10/1/2002, tax rates increase for alcoholic beverages as referenced under "Current Tax Structure". [Beer manufactured by breweries that meet the qualification of 26 U.S.C. 5051(a)(2) is taxed at the rate of \$.35/gallon on the first 60,000 barrels sold in Alaska]
Games of Chance and Contests of Skill	AS 05.15	1960		\$20 annual permit fee for new and renewal permittees. \$50 renewal permit fee for permittees with \$20,000 to \$100,000 in gross receipts. \$100 renewal permit fee for permittees with over \$100,000 in gross receipts. \$500 annual operator license fee. \$1,000 annual distributor fee. \$2,500 annual manufacturer license fee. 3% tax of an amount equal to the gross receipts less prizes awarded on each series of pull tabs distributed.	
Conservation Surcharge on Oil	AS 43.55	1989	5¢/bbl	3¢/bbl increasing to 5¢/bbl when fund balance drops below \$50m	1994 - tax rate split based on fund balance
Corporate Net Income	AS 43.20	1949	10% of federal income tax liability	1% to 9.4% of net income	2003 - oil and gas CIT exploration/development credit initiated.
Dive Fishery Management Assessment	AS 43.76.150	1997	Voluntary tax of 1, 3, 5, or 7% of value	SE AK Management Area A Geoduck = 5% Sea Cucumber = 5% Sea Urchin = 7%	1999 - SE Alaska region elected to assess at current rates.
Electric Cooperative	AS 10.25.555	1959	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years	1/4 mill (\$.00025) per kWh if < 5 years; 1/2 mill (\$.0005) per kWh if ≥ 5 years	1980 - tax base on kWh rather than gross revenue
Estate	AS 43.31	1919	(Inheritance Tax) Based on value of property	State tax credit on federal estate tax return	1991 - interest on delinquent tax subject to compound interest under AS 43.05.225. Beginning FY 2003, the state estate tax will phase out as a consequence of changes in federal law
Fisheries Business	AS 43.75	1913	7¢ per case of canned salmon; Other -- dollar amount based on revenue	Floating ¹ - 5% of value Cannery ¹ - 4.5% of value Shore-based ¹ - 3% of value Floating ² - 3% of value Shore-based ² - 1% of value	2003 - salmon product development/utilization credit and monthly payment options initiated
Fishery Resource Landing	AS 43.77	1993	3.3% of unprocessed value	3% of value ¹ 1% of value ²	2001 - quarterly payment of estimated fishery resource landing taxes is required
Mining License	AS 43.65	1913	.5% of net income > \$5,000	Tax on net income: No tax if ≤ \$40,000 3% if > \$40,000 and ≤ \$50,000 5% if > \$50,000 and ≤ \$100,000 7% if > \$100,000	1995 - minerals explorations incentive credit enacted

Appendix A

Historical Overview of Tax Programs

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
Motor Fuel	AS 43.40	1945	1¢ per gallon on all fuels	Highway - 8¢/gallon Marine - 5¢/gallon Aviation Gas - 4.7¢/gallon Jet Fuel - 3.2¢/gallon	2001 - regulations adopted introduced new and clarified existing policy for interpreting the statutes
Oil & Gas Property	AS 43.56	1973	20 mills on full and true value	20 mills on full and true value	1996 - oil and gas property education tax credit was enacted
Oil & Gas Production Tax	AS 43.55	1955	1% of production value	12.25% of production value during first five years of production, 15% thereafter	2003 - oil and gas tax credit enacted.
Regulatory Cost Charge (APUC)	AS 42.05.253 (Utilities) AS 42.06.285 (Pipelines)	1992	Electric Utilities: \$.000626/kWh Other Utilities: .653% gross revenue Pipelines: .653% gross revenue	Electric Utilities: \$.000280/kWh Other Utilities: .568% gross revenue Pipelines: .568% gross revenue	1998 - rates increased by regulation
Salmon Enhancement	AS 43.76	1980	Voluntary tax of 1%, 2% or 3% of value as elected by fishers in an aquaculture region	Southern Southeast - 3% Northern Southeast - 3% Cook Inlet - 2% Pr. William Sound - 2% Kodiak - 2% Chignik - 2%	1991 - Chignik elected 2% tax
Salmon Marketing	AS 43.76	1993	1% of value of salmon statewide	1% of value of salmon statewide	1998 - tax sunset date re-extended to June 30, 2003
Seafood Marketing	AS 16.51.120	1981	Voluntary assessment of .1%, .2% or .3% of value as elected by processors	.3% of value of fishery resources produced in Alaska	1996 - fishery resources landed in Alaska included in seafood marketing assessment
Telephone Cooperative	AS 10.25.550	1959	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer	N/A
Tobacco	AS 43.50	1949	Cigarettes - 3¢ per pack of 20; Tobacco - 2¢ per ounce	50 mills/cigarette (\$1 per pack of 20) 75% of wholesale price	2003 - Hb 224 adds requirements to cigarette manufacturers to help insure compliance with the Master Settlement Agreement. 2004 - SB 168 requires that an Alaska cigarette tax stamp be affixed to each cigarette pack prior to sale, distribution or consumption. Prohibits sale of cigarettes at less than cost
1 Established species 2 Developing species					

Appendix A
Historical Overview of Tax Programs

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
<i>Repealed Tax Programs</i>					
Business License	AS 43.70	1949	\$25 license fee plus .5% of gross receipts > \$20,000 plus .25% of gross receipts > \$50,000	Repealed	Tax repealed effective January 1, 1979
Oil & Gas Conservation	AS 43.57	1955	5 mills per barrel of oil or 50,000 cubic feet of natural gas	Repealed	Tax repealed effective July 1, 1999
Coin-operated Devices	AS 43.35	1941	12.5% of gross receipts on coin-operated machines	Repealed	Tax repealed effective January 1, 1999
Individual Income	AS 43.20	1949	10% of federal income tax liability	Repealed	Tax repealed retroactive to 1979
School	AS 43.45	1919	\$5 tax on each male person	Repealed	Tax repealed retroactive to 1980

Appendix B

Comparison of Alcohol Tax Rates - Liquor

January 2003

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank*	State	Rate (\$ per gallon)	Rank*
Alabama	Footnote 1	N/A	Montana	Footnote 1	N/A
ALASKA	12.80	1	Nebraska	3.00	19
Arizona	3.00	19	Nevada	2.05	29
Arkansas	2.50	23	New Hampshire	Footnote 1	N/A
California	3.30	17	New Jersey	4.40	10
Colorado	2.28	28	New Mexico	6.06	4
Connecticut	4.50	8	New York	6.44	3
Delaware	3.75	15	North Carolina	Footnote 1	N/A
Florida	6.50	2	North Dakota	2.50	23
Georgia	3.79	14	Ohio	Footnote 1	N/A
Hawaii	5.92	5	Oklahoma	5.56	6
Idaho	Footnote 1	N/A	Oregon	Footnote 1	N/A
Illinois	4.50	8	Pennsylvania	Footnote 1	N/A
Indiana	2.68	22	Rhode Island	3.75	15
Iowa	Footnote 1	N/A	South Carolina	2.72	21
Kansas	2.50	23	South Dakota	3.93	13
Kentucky	1.92	31	Tennessee	4.40	10
Louisiana	2.50	23	Texas	2.40	27
Maine	Footnote 1	N/A	Utah	Footnote 1	N/A
Maryland	1.50	32	Vermont	Footnote 1	N/A
Massachusetts	4.05	12	Virginia	Footnote 1	N/A
Michigan	Footnote 1	N/A	Washington	Footnote 1	N/A
Minnesota	5.03	7	West Virginia	Footnote 1	N/A
Mississippi	Footnote 1	N/A	Wisconsin	3.25	18
Missouri	2.00	30	Wyoming	Footnote 1	N/A

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 32 states which levy a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Alcohol Tax Rates - Wine

January 2003

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank*	State	Rate (\$ per gallon)	Rank*
Alabama	1.70	4	Montana	1.06	10
ALASKA	2.50	1	Nebraska	.75	18
Arizona	.84	16	Nevada	.40	34
Arkansas	.75	18	New Hampshire	Footnote 1	N/A
California	.20	43	New Jersey	.70	22
Colorado	.32	38	New Mexico	1.70	4
Connecticut	.60	24	New York	.19	45
Delaware	.97	12	North Carolina	.79	17
Florida	2.25	2	North Dakota	.50	30
Georgia	1.51	6	Ohio	.32	38
Hawaii	1.36	8	Oklahoma	.72	21
Idaho	.45	33	Oregon	.67	23
Illinois	.73	20	Pennsylvania	Footnote 1	N/A
Indiana	.47	32	Rhode Island	.60	24
Iowa	1.75	3	South Carolina	.90	14
Kansas	.30	40	South Dakota	.93	13
Kentucky	.50	30	Tennessee	1.21	9
Louisiana	.11	46	Texas	.20	43
Maine	.60	24	Utah	Footnote 1	N/A
Maryland	.40	34	Vermont	.55	27
Massachusetts	.55	27	Virginia	1.51	6
Michigan	.51	29	Washington	.87	15
Minnesota	.30	40	West Virginia	1.00	11
Mississippi	.35	37	Wisconsin	.25	42
Missouri	.36	36	Wyoming	Footnote 1	N/A

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 46 states which impose a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Alcohol Tax Rates -Beer

January 2003

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank	State	Rate (\$ per gallon)	Rank
Alabama	.53	4	Montana	.14	35
ALASKA	1.07	1	Nebraska	.23	19
Arizona	.16	30	Nevada	.09	42
Arkansas	.23	19	New Hampshire	.30	14
California	.20	21	New Jersey	.12	38
Colorado	.08	44	New Mexico	.41	9
Connecticut	.19	23	New York	.125	37
Delaware	.16	30	North Carolina	.53	4
Florida	.48	6	North Dakota	.16	30
Georgia	.48	6	Ohio	.18	27
Hawaii	.92	2	Oklahoma	.40	10
Idaho	.15	33	Oregon	.08	44
Illinois	.185	26	Pennsylvania	.08	44
Indiana	.12	38	Rhode Island	.10	41
Iowa	.19	23	South Carolina	.77	3
Kansas	.18	27	South Dakota	.27	15
Kentucky	.08	44	Tennessee	.14	35
Louisiana	.32	13	Texas	.19	23
Maine	.35	11	Utah	.35	11
Maryland	.09	42	Vermont	.265	16
Massachusetts	.11	40	Virginia	.26	18
Michigan	.20	21	Washington	.261	17
Minnesota	.15	33	West Virginia	.18	27
Mississippi	.43	8	Wisconsin	.06	48
Missouri	.06	48	Wyoming	.02	50

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Highway Gasoline Tax Rates January 2003

State	Rate (¢ per gallon)	Other Tax ⁽¹⁾ (¢ per gallon)	Total (¢ per gallon)	Rank
Alabama	16	2	18	37
ALASKA	8	0	8	50
Arizona	18	0	18	37
Arkansas	21.5	0.2	21.7	22
California	18	0.0	18	37
Colorado	22	0	22	18
Connecticut	25	0	25	8
Delaware	23	0	23	14
Dist of Columbia	20	0	20	26
Florida	4	10.1	14.1	48
Georgia	7.5	0	7.5	51
Hawaii	16	0	16	44
Idaho	25	1	26	4
Illinois	19	0.8	19.8	32
Indiana	15	0	15	46
Iowa	20	0	20	26
Kansas	23	0	23	14
Kentucky	15	1.4	16.4	43
Louisiana	20	0	20	26
Maine	22	0	22	18
Maryland	23.5	0	23.5	13
Massachusetts	21	0	21	24
Michigan	19	0	19	34
Minnesota	20	0	20	26
Mississippi	18	0.4	18.4	36
Missouri	17	0.03	17.03	41
Montana	27	0	27	3
Nebraska	24.6	0.9	25.5	6
Nevada	24	0	24	10
New Hampshire	18	1.5	19.5	33
New Jersey	10.5	4	14.5	47
New Mexico	17	1.9	18.9	35
New York	8	14.6	22.6	17
North Carolina	23.4	0.25	23.65	12
North Dakota	21	0	21	24
Ohio	22	0	22	18
Oklahoma	16	1	17	42
Oregon	24		24	10
Pennsylvania	12	13.9	25.9	5
Rhode Island	30	1	31	1
South Carolina	16	0	16	44
South Dakota	22	0	22	18
Tennessee	20	1.4	21.4	23
Texas	20	0	20	26
Utah	24.5	0	24.5	9
Vermont	19	1	20	26
Virginia	17.5	0	17.5	40
Washington	23	0	23	14
West Virginia	20.5	4.85	25.35	7
Wisconsin	28.1	0	28.1	2
Wyoming	13	1	14	49

⁽¹⁾ Includes state sales tax, gross receipts tax and underground storage tank taxes.

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Aviation Fuel Tax Rates

May 2003

Jet Fuel			Aviation Gas	
State	(¢ per gallon)	Rank ¹	(¢ per gallon)	Rank ²
Alabama	1.0	30	3.0	35
ALASKA	3.2	20	4.7	31
Arizona	3.05	21	5.0	25
Arkansas	Sales Tax	N/A	Sales Tax	N/A
California	2.0	25	18.0	5
Colorado	4.0	16	6.0	20
Connecticut	None	N/A	None	N/A
Delaware	None	N/A	23.0	1
Florida	6.0	7	6.0	20
Georgia	Sales Tax	N/A	1.0	39
Hawaii	1.0	30	1.0	39
Idaho	4.5	15	5.5	24
Illinois	11.0	1	11.0	9
Indiana	0.8	34	15.0	7
Iowa	3.0	22	8.0	14
Kansas	Sales Tax	N/A	Sales Tax	N/A
Kentucky	Sales Tax	N/A	16.4	6
Louisiana	Sales Tax	N/A	20.0	3
Maine	3.4	19	22.0	2
Maryland	7.0	5	7.0	17
Massachusetts	5.0	10	10.0	10
Michigan	3.0	22	3.0	35
Minnesota	5.0	10	5.0	25
Mississippi	5.25	9	6.4	19
Missouri	Sales Tax	N/A	9.0	11
Montana	4.0	16	4.0	33
Nebraska	3.0	22	5.0	25
Nevada	1.0	30	2.0	37
New Hampshire	2.0	25	4.0	33
New Jersey	2.0	25	12.5	8
New Mexico	Sales Tax	N/A	Sales Tax	N/A
New York	8.0	3	8.0	14
North Carolina	Sales Tax	N/A	Sales Tax	N/A
North Dakota	8.0	3	8.0	14
Ohio	Sales Tax	N/A	Sales Tax	N/A
Oklahoma	0.08	35	0.08	41
Oregon	1.0	30	9.0	11
Pennsylvania	2.0		4.3	32
Rhode Island	None	N/A	None	N/A
South Carolina	Sales Tax	N/A	Sales Tax	N/A
South Dakota	4.0	16	6.0	20
Tennessee	1.4	29	1.4	38
Texas	None	N/A	None	N/A
Utah	9.0	2	9.0	11
Vermont	None	N/A	20.0	3
Virginia	5.0	10	5.0	25
Washington	6.5	6	6.5	18
West Virginia	4.85	14	4.85	30
Wisconsin	6.0	7	6.0	20
Wyoming	5.0	10	5.0	25

¹Out of 35 states with tax rates ²Out of 41 states with tax rates

SOURCE: *National Business Aircraft Association, Inc. 2003 State Aviation Tax Report*

Appendix B
Comparison of Cigarette Tax Rates
July 2003

State	Rate (\$ per pack)	Rank	State	Rate (\$ per pack)	Rank
Alabama	0.165	46	Montana	0.70	21
ALASKA	1.00	12	Nebraska	0.64	23
Arizona	1.18	11	Nevada	0.35	38
Arkansas	0.59	25	New Hampshire	0.52	31
California	0.87	18	New Jersey	2.05	1
Colorado	0.20	42	New Mexico	0.91	17
Connecticut	1.51	3	New York	1.50	5
Delaware	0.24	40	North Carolina	0.05	48
Florida	0.339	39	North Dakota	0.44	33
Georgia	0.37	35	Ohio	0.55	28
Hawaii	1.30	7	Oklahoma	0.23	41
Idaho	0.57	26	Oregon	1.28	8
Illinois	0.98	16	Pennsylvania	1.00	12
Indiana	0.555	27	Rhode Island	1.71	2
Iowa	0.36	36	South Carolina	0.07	47
Kansas	0.79	19	South Dakota	0.53	30
Kentucky	0.03	49	Tennessee	0.20	42
Louisiana	0.36	36	Texas	0.41	34
Maine	1.00	12	Utah	0.695	22
Maryland	1.00	12	Vermont	1.19	10
Massachusetts	1.51	3	Virginia	0.025	50
Michigan	1.25	9	Washington	1.425	6
Minnesota	0.48	32	West Virginia	0.55	28
Mississippi	0.18	44	Wisconsin	0.77	20
Missouri	0.17	45	Wyoming	0.60	24

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Tobacco Products Tax Rates

January 2003

State	Rate	State	Rate
Alabama	.6¢ - 4.4¢/ounce	Montana	12.5% Wholesale Price
ALASKA	75% Wholesale Price	Nebraska	20% Wholesale Price
Arizona	13.3¢/ounce	Nevada	30% Wholesale Price
Arkansas	25% Manufacturer Price	New Hampshire	21.9% Wholesale Price
California	48.89% Wholesale Price	New Jersey	30% Wholesale Price
Colorado	20% Manufacturer Price	New Mexico	25% Product Value
Connecticut	20% Wholesale Price	New York	37% Wholesale Price
Delaware	15% Wholesale Price	North Carolina	2% Wholesale Price
Florida	25% Wholesale Price	North Dakota	28% Wholesale Price
Georgia	13% Wholesale Price	Ohio	17% Wholesale Price
Hawaii	40% Wholesale Price	Oklahoma	30% - 40% Factory List Price
Idaho	40% Wholesale Price	Oregon	65% Wholesale Price
Illinois	18% Wholesale Price	Pennsylvania	N/A
Indiana	15% Wholesale Price	Rhode Island	30% Wholesale Price
Iowa	22% Wholesale Price	South Carolina	5% Manufacturer Price
Kansas	10% Manufacturer Price	South Dakota	10% Wholesale Price
Kentucky	N/A	Tennessee	6.5% Wholesale Price
Louisiana	33% Manufacturer Price	Texas	35.213% Manufacturer Price
Maine	62% Wholesale Price	Utah	35% Manufacturer Price
Maryland	15% Wholesale Price	Vermont	41% Manufacturer Price
Massachusetts	90% Wholesale Price	Virginia	N/A
Michigan	20% Wholesale Price	Washington	129.42% Wholesale Price
Minnesota	35% Wholesale Price	West Virginia	7% Wholesale Price
Mississippi	15% Manufacturer Price	Wisconsin	25% Manufacturer Price
Missouri	10% Manufacturer Price	Wyoming	20% Wholesale Price

Tobacco products include chewing tobacco and snuff.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B

Comparison of Corporation Income Tax Rates

2003 Tax Year

State	Rate	Tax Brackets		Number of Brackets
	(%)	Lowest	Highest	
Alabama	6.5	Flat Rate		1
ALASKA	1.0 - 9.4	\$ 10,000	\$90,000	10
Arizona	6.9680	Flat Rate		1
Arkansas	1.0 - 6.5	\$3,000	\$100,000	6
California	8.84	Flat Rate		1
Colorado	4.63	Flat Rate		1
Connecticut	7.5	Flat Rate		1
Delaware	8.7	Flat Rate		1
Florida	5.5	Flat Rate		1
Georgia	6.0	Flat Rate		1
Hawaii	4.4 - 6.4	\$25,000	\$100,000	3
Idaho	7.6	Flat Rate		1
Illinois	7.3	Flat Rate		1
Indiana	8.5	Flat Rate		1
Iowa	6.0 - 12.0	\$25,000	\$250,000	4
Kansas	4.0	Flat Rate		1
Kentucky	4.0 - 8.25	\$25,000	\$250,000	5
Louisiana	4.0 - 8.0	\$25,000	\$200,000	5
Maine	3.5 - 8.93	\$25,000	\$250,000	4
Maryland	7.0	Flat Rate		1
Massachusetts	9.5	Flat Rate		1
Michigan	Tax Based on Federal Taxable Income			N/A
Minnesota	9.8	Flat Rate		1
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	6.25	Flat Rate		1
Montana	6.75	Flat Rate		1
Nebraska	5.58 - 7.81	\$50,000		2
Nevada	No Corporation Income Tax			N/A
New Hampshire	8.5	Flat Rate		1
New Jersey	9.0	Flat Rate		1
New Mexico	4.8 - 7.6	\$500,000	\$1,000,000	3
New York	7.5	Flat Rate		1
North Carolina	6.9	Flat Rate		1
North Dakota	3.0 - 10.5	\$3,000	\$50,000	6
Ohio	5.1 - 8.5	\$50,000		2
Oklahoma	6.0	Flat Rate		1
Oregon	6.6	Flat Rate		1
Pennslyvania	9.99	Flat Rate		1
Rhode Island	9.0	Flat Rate		1
South Carolina	5.0	Flat Rate		1
South Dakota	No Corporation Income Tax			N/A
Tennessee	6.5	Flat Rate		1
Texas	Tax Based on Capital and Surplus			N/A
Utah	5.0	Flat Rate		1
Vermont	7.0 - 9.75	\$10,000	\$250,000	4
Virginia	6.0	Flat Rate		1
Washington	No Corporation Income Tax			N/A
West Virginia	9.0	Flat Rate		1
Wisconsin	7.9	Flat Rate		1
Wyoming	No Corporation Income Tax			N/A

Source: Federation of Tax Administrators

Appendix B

Comparison of Individual Income Tax Rates*

2003 Tax Year

State	Rate (%)	Tax Brackets		Number of Brackets
		Lowest	Highest	
Alabama	2.0 - 5.0	\$500	\$3,000	3
ALASKA		No State Income Tax		N/A
Arizona	2.87 - 5.04	\$10,000	\$150,000	5
Arkansas	1.0 - 6.5	\$2,999	\$25,000	6
California	1.0 - 9.3	\$5,834	\$38,291	6
Colorado	4.63	Flat Rate		1
Connecticut	3.0 - 4.5	\$10,000	\$10,000	2
Delaware	2.2 - 5.95	\$5,000	\$60,000	7
Florida		No State Income Tax		N/A
Georgia	1.0 - 6.0	\$750	\$7,000	6
Hawaii	1.4 - 8.25	\$2,000	\$40,000	8
Idaho	1.6 - 7.8	\$1,087	\$21,730	8
Illinois	3.0	Flat Rate		1
Indiana	3.4	Flat Rate		1
Iowa	.36 - 8.98	\$1,211	\$54,495	9
Kansas	3.5 - 6.45	\$15,000	\$30,000	3
Kentucky	2.0 - 6.0	\$3,000	\$8,000	5
Louisiana	2.0 - 6.0	\$10,000	\$50,000	3
Maine	2.0 - 8.5	\$4,200	\$16,700	4
Maryland	2.0 - 4.75	\$1,000	\$3,000	4
Massachusetts	5.3	Flat Rate		1
Michigan	4.0	Flat Rate		1
Minnesota	5.35 - 7.85	\$18,710	\$61,461	3
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	1.5 - 6.0	\$1,000	\$9,000	10
Montana	2.0 - 11.0	\$2,200	\$75,400	10
Nebraska	2.56 - 6.84	\$2,400	\$26,500	4
Nevada		No State Income Tax		N/A
New Hampshire		Tax Limited to Dividends and Interest		N/A
New Jersey	1.4 - 6.37	\$20,000	\$75,000	6
New Mexico	1.7 - 8.2	\$5,500	\$65,000	7
New York	4.0 - 6.85	\$8,000	\$20,000	5
North Carolina	6.0 - 8.25	\$12,750	\$120,000	4
North Dakota	2.1 - 5.54	\$27,050	\$297,350	5
Ohio	0.743 - 7.5	\$5,000	\$200,000	9
Oklahoma	0.5 - 7.0	\$1,000	\$10,000	8
Oregon	5.0 - 9.0	\$2,500	\$6,250	3
Pennsylvania	2.8	Flat Rate		1
Rhode Island		25% Federal Tax Liability		N/A
South Carolina	2.5 - 7.0	\$2,400	\$12,000	6
South Dakota		No State Income Tax		N/A
Tennessee		Tax Limited to Dividends and Interest		N/A
Texas		No State Income Tax		N/A
Utah	2.3 - 7.0	\$863	\$4,313	6
Vermont	3.6 - 9.5	\$27,950	\$307,050	5
Virginia	2.0 - 5.75	3,000	17,000	4
Washington		No State Income Tax		N/A
West Virginia	3.0 - 6.5	\$10,000	\$60,000	5
Wisconsin	4.6 - 6.75	\$8,280	\$124,200	4
Wyoming		No State Income Tax		N/A

* Rates apply to unmarried individuals

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Sales Tax Rates
January 1, 2003

State	Rate (%)	Exemptions		
		Food	Prescription Drugs	Nonprescription Drugs
Alabama	4.0	No	Yes	No
ALASKA		No State Sales Tax		
Arizona	5.6	Yes	Yes	No
Arkansas	5.125	No	Yes	No
California	7.25	Yes	Yes	No
Colorado	2.9	Yes	Yes	No
Connecticut	6.0	Yes	Yes	Yes
Delaware		No State Sales Tax		
Florida	6.0	Yes	Yes	Yes
Georgia	4.0	Yes	Yes	No
Hawaii	4.0	No	Yes	No
Idaho	5.0	No	Yes	No
Illinois	6.25	1%	1%	1%
Indiana	6.0	Yes	Yes	No
Iowa	5.0	Yes	Yes	No
Kansas	5.3	No	Yes	No
Kentucky	6.0	Yes	Yes	No
Louisiana	4.0	2%	Yes	No
Maine	5.0	Yes	Yes	No
Maryland	5.0	Yes	Yes	Yes
Massachusetts	5.0	Yes	Yes	No
Michigan	6.0	Yes	Yes	No
Minnesota	6.5	Yes	Yes	Yes
Mississippi	7.0	No	Yes	No
Missouri	4.225	1.225%	Yes	No
Montana		No State Sales Tax		
Nebraska	5.5	Yes	Yes	No
Nevada	6.5	Yes	Yes	No
New Hampshire		No State Sales Tax		
New Jersey	6.0	Yes	Yes	Yes
New Mexico	5.0	No	Yes	No
New York	4.0	Yes	Yes	Yes
North Carolina	4.5	Yes	Yes	No
North Dakota	5.0	Yes	Yes	No
Ohio	5.0	Yes	Yes	No
Oklahoma	4.5	No	Yes	No
Oregon		No State Sales Tax		
Pennsylvania	6.0	Yes	Yes	Yes
Rhode Island	7.0	Yes	Yes	Yes
South Carolina	5.0	No	Yes	No
South Dakota	4.0	No	Yes	No
Tennessee	7.0	6%	Yes	No
Texas	6.25	Yes	Yes	Yes
Utah	4.75	No	Yes	No
Vermont	5.0	Yes	Yes	Yes
Virginia	4.5	4%	Yes	Yes
Washington	6.5	Yes	Yes	No
West Virginia	6.0	No	Yes	No
Wisconsin	5.0	Yes	Yes	No
Wyoming	4.0	No	Yes	No

Source: Federation of Tax Administrators

Appendix B

Comparison of Oil and Gas Severance Taxes 2000

State	Oil Production Annual Bbls	Gas Production Annual MMcf	Oil and Gas Severance Taxes	Tax per Bbl Equivalent
Wyoming	102,663,000	1,088,328	\$ 567,445,000	2.00
North Dakota	35,209,000	52,426	\$ 71,275,000	1.62
Montana	15,753,000	69,936	\$ 43,770,000	1.60
Alaska	390,510,000	458,995	\$ 702,700,000	1.50
Oklahoma	138,202,000	1,612,890	\$ 410,412,000	1.01
Tennessee	346,000	1,150	\$ 532,000	0.99
Florida	5,538,000	7,319	\$ 6,046,000	0.89
New Mexico	127,188,000	1,687,416	\$ 345,300,000	0.85
Alabama	23,362,000	363,467	\$ 68,341,000	0.81
Louisiana	236,513,000	1,455,014	\$ 354,314,000	0.74
Texas	720,377,000	5,072,480	\$ 1,153,086,000	0.74
South Dakota	1,170,000	1,652	\$ 1,051,000	0.73
Oregon	-	1,214	\$ 146,000	0.72
Nebraska	2,955,000	1,218	\$ 2,108,000	0.67
Michigan	12,045,000	296,556	\$ 40,012,000	0.65
Kentucky	4,930,000	81,545	\$ 11,414,000	0.62
Mississippi	27,972,000	88,558	\$ 23,751,000	0.56
Kansas	69,293,000	525,729	\$ 56,900,000	0.36
West Virginia	9,439,000	264,139	\$ 18,048,000	0.34
Indiana	2,098,000	899	\$ 653,000	0.29
Utah	19,844,000	269,285	\$ 17,313,000	0.27
Arkansas	7,532,000	171,642	\$ 9,476,000	0.26
Maryland	-	34	\$ 1,000	0.18
Colorado	38,131,000	767,536	\$ 24,641,000	0.15
Ohio	6,714,000	105,125	\$ 3,090,000	0.13
Nevada	621,000	-	\$ 62,000	0.10
California	280,540,000	330,749	\$ 11,124,000	0.03
Arizona	57,000	368	\$ -	-
Illinois	12,206,000	189	\$ -	-
Missouri	95,000	-	\$ -	-
New York	181,000	17,752,000	\$ -	-
Pennsylvania	1,795,000	200,907	\$ -	-
Virginia	7,000	71,545	\$ -	-
US Total	2,293,286,000	32,800,311	3,943,011,000	0.51

Source: 2001-2002 State Petroleum Production, Independent Petroleum Association of America

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